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

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BURUNDI: STRUCTURAL ADJUSTMENT POLICY

Report on the Conference held in Bujumbura, Burundi
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PREFACE

This volume contains the proceedings of a Conference on Structural Adjustment, held in Bujumbura on May 23 - 25, 1990.

The Conference was initiated and managed by the Government of Burundi, and in particular by the Permanent Secretariat of the Monitoring Committee of the Structural Adjustment Program. Funding for the Conference was provided by the Burundi Mission of the United States Agency for International Development (USAID) and by the European Economic Community. Contributions towards the organization of the Conference were made by the Center for Research on Economic Development (CRED), which was also responsible for the editing of this volume.

The volume contains complete versions of the formal addresses and papers presented at the Conference, along with summaries of the discussions which followed. A detailed summary of the entire proceedings was prepared by the staff of the Permanent Secretariat, and is included in the introductory section of the volume. This is followed by the addresses and papers, which fall into four categories:

1. A formal address by the Minister of Finance, Mr. Gerard Niyibigira;
2. Presentations by representatives of three international organizations: the European Economic Community, the Economic Commission for Africa, and the United Nations Industrial Development Organization;
3. Presentations on experience with structural adjustment in Madagascar and Ghana;
4. Papers on four themes central to structural adjustment: exchange rate policy, agricultural pricing policy, public finance, and privatization.

We at the Center for Research on Economic Development were impressed by the quality and quantity of the effort which went into the Conference, and appreciated the opportunity to work in genuine collaboration with the Permanent Secretariat, USAID/Burundi, and the other institutions involved. It is our hope that the Conference itself and this volume of proceedings will be a useful contribution towards the process of structural adjustment in Burundi, and will be of interest to government officials, development assistance officials and scholars in other countries.

Ernest J. Wilson, III, Director
Center for Research on Economic Development

September 30, 1990

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Ghana: Presenting the case of Ghana: Mr. Abner BAB KLU, Directeur des Recettes

Madagascar: Presenting the case of Madagascar: Mr. Nirina ANDRIAMANERASOA, Conseiller Economique du Président

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List of Acronyms and Abbreviations

ACP	African, Caribbean and Pacific States
AFSAP	African Framework for Structural Adjustment Programs
BCC	Burundi Coffee Company
CRED	Center for Research on Economic Development, The University of Michigan
EEC	European Economic Community
ECA	Economic Commission for Africa
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

Colloquium on
The Structural Adjustment Program
Bujumbura 23 - 25 May 1990

SUMMARY OF PROCEEDINGS

prepared by

le Secrétariat Permanent du Comité de Suivi
du Programme d'Ajustement Structurel

Premier Ministère et Ministère du Plan

République du Burundi

June 1990

I. OBJECT OF THE COLLOQUIUM

Towards the goal of internalizing more and more the program of structural adjustment, the government of Burundi has asked USAID to help it organize a symposium on a few aspects of the structural adjustment program for the Burundian officials. The request of the government was well received by USAID as far the U.S. government by chance equally decided during the same time to support the program of economic reform of Burundi by support with balance for balance of payments and private sector promotion.

The colloquium was conceived in a manner to permit our officials to communicate with other foreign officials the real life experiences of adjustment in following areas in particular:

a) Exchange rate policies;

b) Agricultural price policies;

c) Taxation and private savings;

d) The reform of public enterprises and privatization.

II. OPENING SESSION

The work of the colloquium began Wednesday the 23rd of May 1990 at 9AM, in the large conference room of the Source du Nil Hotel under the patronage of the Ministry of Finance and Vice President of the Committee for SAP Surveillance representing the Prime Minister and Minister of Plan.

After a word of introduction given by M. Salavator MATATA, Permanent Secretary of the Committee for the following of Structural Adjustment Programs, the floor was given to Ernest Wilson III, director of "CRED", the Center for Research on Economic Development of the University of Michigan (USA).

Mr. Ernest Wilson III expressed his pleasure to see come to a conclusion the project prepared jointly with Prime Minister and Minister of Plan of Burundi, Permanent Secretary of the SAP Surveillance Committee, with the financial support of the American Agency for International Development (USAID).

He expressed his thanks to the government of the Republic of Burundi, and to the Prime Minister in particular, for his support of this workshop on SAP.

The Director of CRED emphasized that economic reform is a world phenomenon in citing examples of countries under adjustment and as different as the USSR (Perestroika), Vietnam, Nigeria, and China.

Whatever the country concerned, economic reforms have several aspects in common. In a world that is in the middle of change, it is necessary to adapt to these changes. Each country must be able to export and import, to cover the needs of its population in goods. The instruments are numerous and each government must find its path.

Mr. Ernest Wilson III ended in presenting the themes of the discussions and emphasized that the conference team is international, very competent and experimental.

The USAID representative remembered that the Bujumbura colloquium was born of the Burundian participants of a similar type of colloquium organized at Nairobi under the financing of USAID. Of which work it should have a certain interest in the measure of the sound application of structural adjustment guided to net profits. The already positive Burundian experience had all to gain in profiting from that of other countries.

He remembered that in the field of adjustment, the American cooperation with Burundi is centered on assistance to private enterprise and the promotion of exports.

It is the Minister of Finance of Burundi, Vice President of the SAP Monitoring Committee, Mr. Gerard NIYIBIGIRA, who announced the opening of the talks in the name of Prime Minister and Minister of Plan.

The Minister of Finance wished a warm welcome to all the foreign participants and solemnly expressed the thanks and recognition of the government to CRED, to USAID, to the EEC, to the ECA, to UNIDO and to the representatives of the Nations for their support and contribution to the attendance of this colloquium. He cited the appreciable role of the World Bank, the International Monetary Fund, Japan, the EEC, Belgium, Switzerland, and Saudi Arabia who supported Burundi in its first efforts at adjustment. The Minister of Finance did not forget to welcome the new supporters of SAP, being USAID and FDR.

Mr. NIYIBIGIRA then turned to review the program of adjustment initiated by Burundi in the macroeconomic as well as the sectoral plan. Despite exogenous factors that were contrary to its provisions, the government garnered encouraging results at the level of growth in GNP and control of inflation, emphasized Mr. NIYIBIGIRA. He equally stressed that the best public finance management, the infatuation for exports, greater competition in the productive sector, etc...constitutes appreciable qualitative results.

In conclusion, the Minister of Finance, on the basis of the experience of Burundi, set forth a few reflections on the themes of the colloquium. He in particular raised the merits and the limits of exchange rate policies and favorable farm prices; he noted the relation between fiscal policies and savings; he finally spoke of the famous - off sector trade - private sector concerning public disengagement and privatization.

In announcing the colloquium officially opened, the Minister of Finance recommended a pragmatic attitude for the participants in their deliberations.

The inaugural address was done by Mr. Dominique David, Counselor to the Director General of Development for the EEC on "The Approach of the European Community in Support of Structural Adjustment".

Mr. David expressed his personal perception on the origins of SAP:

a) The difficult period of the 1960's was succeeded by that of ease in the 1970's which had for a number of developing countries the effect of disguising weaknesses and permitted the delay of essential choices. The alarm of the 1980's was likely that much harder and strained, bringing to a head one day the profound internal and external economic disequilibrium of developing countries, and especially for the poorest of them, with the economic and social indicators declining and sometimes behind that of the 1960's. The future was therefore no longer certain.

b) The dispersion of huge sums of money around the world pushed consumption which was bound to have the effect of driving a lover of money into over-indebtedness. Many countries increased their indebtedness and investments without being alerted by the skidding of their still illusory economies.

c) The credit crash after the second oil shock, the crash of world commodity markets combined with rise of repayments following the overvaluation of the dollar likely lead to the adjustment of economic and financial structures.

Mr. David noted that the voluntary efforts of the African countries in the realm of SAP are currently very encouraging. He emphasized that the EEC shared the majority of African views notably those contained in the ECA reference document entitled "CARPAS" (Cadre Africain de Reference pour les Programmes d'Adjustment Structurel) approved in April 1989. The only reservation the EEC had with this document was that it considered it necessary to treat the question of adjustment, not only from a theoretical angle, but as an approach and a starting point for better development.

The orator emphasized that one often encounters contradictions in CARPAS between the measures taken or to take and the researched effects.

Mr. David indicated that for the EEC, it appeared as well that, to succeed, structural adjustment must positively address six major concerns:

a) Respect the priorities of long term development.

b) To integrally set up again the responsibility of the government brought on by a adjustment.

c) To adapt to the specific context of each country.

d) Assure the progressiveness of reforms.

e) Take into consideration its social consequences.

f) Finally, integrate it with regional coordination.

For the first point, it is interesting to note, emphasized Mr. David, that IBRD, after having "pushed" support for adjustment in favor of SAS to 45% of AID's total support for these countries, now recognizes the importance of assuring a minimum of investment.

Mr. David concluded by noting the possibilities of financing offered by the European Development Fund ((EDF) in the forms of grants in the area of structural adjustment, including the social dimension of adjustment.

III. THE POINTS OF VIEW SPECIFIC ORGANIZATIONS AND THE EXPERIENCES OF TWO COUNTRIES

III.1. THE ECA POINT OF VIEW

The head of the delegation of the United Nations Commission for Africa (ECA), Professor BUGEMBE took the floor and first remarked that the 1980's constituted a lost decade for Africa because the majority of economic and social indicators have turned to a red light.

The continent totters under the burden of a debt that has attained 256 billion dollars.

At the social level, the situation remains preoccupied at this time with maternal and infant mortality; unschooled children; school children without books and notebooks; the erosion of buying power, etc.

The principle question which must be posed is that of knowing why the countries that have initiated structural adjustment programs have not yet succeeded in the economic and social realignment. To find an answer to this question is of primordial importance.

Professor BUGEMBE put forward that UNICEF remains in Africa at the head of the line of social programs that seeks to improve the position of disfavored groups; to slow down the erosion of natural resources.

He equally put forward that if adjustment is necessary, to favor macroeconomic equilibrium without pushing the transformation of socioeconomic structures is an error.

One also remarked, did he say, some negative political aspects of the measure where the population does not seem to embrace an adjustment program where they are the first concerned.

These problems also seemed to leave aside problems linked to the environment.

It is then necessary to pose the following questions:

a) Why does Africa have structural problems?

b) What is the weight of the institutional dimension?

c) Isn't the program poorly explained?

d) What is the reference process?

e) What are the exterior factors that oppose a rapid economic redressing?

f) What is the weight of exterior aid and how can one face it?

g) What is the long term vision of development in Africa?

The representative of the ECA brought up the exogenous aspects which contributed to the economic stagnation Africa. It was necessary to remark that before the adjustment programs, exports had risen, the intervening situation that followed was hardly encouraging. It furthermore seemed that the burden of the debt was not well understood.

According to Professor BUGEMBE, Africa should center all its development plans on the long term. This is the objective of the CARPAS document that raised the essential characteristic principles of all adjustment programs.

a) CARPAS is part of a structural base;

b) It demonstrates the necessity of social transformations without denouncing the human dimension of the economy.

c) It re-establishes man as the principle center of interest.

Taking account of the African realities, the ECA the characteristics of an indispensable base to the success of all development programs. It is necessary to:

a) Diversify and enlarge production;

b) Improve the allocation of resources;

c) Respond to the spending needs of populations.

A particular accent is in fact put on the mobilization of resources. If the human resources are not improved, there will not be a palpable result. There is the equal necessity of cleaning up the environment. The ECA thinks the military expenses could serve to improve the living conditions of the poor.

As bottom line conditions for success:

a) It is necessary to establish a new form of partnership between reforming and donor countries;

b) To give African countries further assistance in the elaboration of their policies;

c) To put a special emphasis on communication to create a greater adhesion by the population to adjustment programs.

III.2. <u>THE DEBATE ON THE ECA POINT OF VIEW</u>

The expose by Professor BUGEMBE provoked debates and very animated interventions.

The first intervention was on the place accorded to demographic policies in the CARPAS terms of reference. The response was that this last one did not take a general position on the subject, because certain countries have demographic problems and others don't.

The second question concerned the reserved acceptance of CARPAS by the traditional funders and their eventual change of attitude.

Professor BUGEMBE reserved much attention for this second point. He responded that CARPAS was adopted together by the African states.

Since then, a second burst of interest is certain. The ECA was invited itself to the level of governments and parliaments. This will again be the case in July at the Conference on the development of Africa that will convene at Maastricht, on the initiative of the Dutch government.

The World Bank already recognizes in its texts that programs that don't take account of human aspects are bound to fail.

The European Economic Community seems to completely understand the position of the ECA.

Concerning the deterioration of the terms of exchange that exist because the level of commodity prices is decided on the exterior, Professor BUGEMBE first of all remarked that it is necessary to sink into the syndrome of dependence. Countries like France and Germany were not developed by Africa. This last will no longer be developed by the foreigner.

This is the reason why it is imperative to adopt the following attitude:

a) Cure the dependence syndrome;

b) Try to understand the position of the donors and be pragmatic in their analysis;

c) Adopt a pragmatic approach in the negotiation;

d) Reevaluate exterior assistance to know if it is really them that aid us or if they enforce our disadvantage.

The delegate of the EEC came to front to say that it is not because the Europeans are rich that the Africans are poor, nor the contrary. He signaled that nonetheless there exist in the North to aid the South in overcoming the crisis. This is the case of the Common Funds managed by the CNUCED, STABEX or SYSMIN.

He stated in passing that the winds of change come to Eastern Europe bring a cascade of policy transformations on Africa.

From the side of the donors, reflections developed at various levels to moralize aid and end the neocolonial complaisance. That is the European opinion is more ripe than in the past. It is this that springs back in other respects on the decision of the recent European summit in Dublin to build a common exterior policy. On the other hand, ended the delegate of the EEC, the policy reform in Africa could have a salutary effect in Europe against neocolonial complaisance.

This point called the immediate intervention of a participant who remarked that the structural adjustment program elevated the consciousness of the North as the well as the South. However, he added, all in agreement on this point, we differ on the means. It is healthy that the North facilitates the success of this program and encourages it. But, force is for us a reminder that our partners do not seem to be adjusting. We are in the same boat. Therefore we sink or float together. The North adopts a position of fireman, but, even if we tighten our belts until the last hole, there will not be the means to pull us. Why are our prices fixed by the North when protectionist measures are beautiful and good in the Nippo-European commerce for example and when subsidies of agricultural products are widespread in the North. That this last point therefore adjusts and that our prices are not fixed by this natural law but by negotiations.

Intervention has also attracted the attention of the necessity for Africans to adjust themselves with the help of their neighbors. For example, at this present time, A private Burundian operator isn't interested in operating in Rwanda on the official plan because of all sorts of barriers linked to applied economic policies in the two countries.

Another intervention concerns two points. The first inquires about the eventual hierarchy in the three recommended policies by the EEC for a rapid redressing of Africa: improvement of production; regional integration; improvement of the art of governance. The second asked if the ECA has also defined this fashion of adjusting and its methods, and if, equally, it has already evaluated the level of destruction caused to the thirty under-adjusted countries because of this last one (privatization, devaluations, etc.).

The delegate of the EEC affirmed that at the level of the European Community, reflection is at the level of symmetric adjustment, to research the permanent dialogue between North and South. It is nonetheless true, had it pursued, that at the limit we will be able push ourselves from the Third World.

"We are no longer all in the same boat, because there are already numerous little boats on the sea. As, for example the 4 tigers (South Korea, Hong Kong, Taiwan and Singapore)."

The delegate of the EEC remarked however that there exist a few other points of nature to compensate this lesser economic interdependence as the environment.

Concerning the hierarchilization of the recommended policies by the EEC, the European delegate explained it in the following fashion:

a) Augmentation of production is indispensable because it is at the base of everything;

b) A large importance is accorded to regional integration because it is possible to develop by selling more in Africa.

c) It is important to develop the theory of comparative advantages because for a given country, but not an absolute advantage. The example of negative competition that was given was that of palm oil in Nigeria and in the Ivory Coast;

d) Concerning the improvement of the art of governing, a distinction must be made between aid to the reconstruction of Eastern Europe and aid to Africa. The first is in fact accompanied by policy conditionality, the second not.

The ECA outdid Professor BUGEMBE, sharing the same views as the EEC but it is on the means that we do not understand. He took hold of a brief reference to a question that had not been posed to him.

a) The participation of the population must be an integral part of our programmes from their debut;

b) Food production must be sensitive toward self-sufficiency and take into account African habits which oblige itself to take advantage of its own resources;

c) Integration is indispensable because Africa counts on a number of countries at the markets demanded that don't have a chance to enter into the next century alone;

d) The evaluation of programs must remain pragmatic.

III.3. THE UNIDO POINT OF VIEW

The representative of the United Nation Industrial Development Organization spoke of the experience of this U.N. organization specializing in industrial management in Africa and outside. He stressed that UNIDO learned that it effectively poses a few questions at the level of industrialization in Africa.

A recent workshop in this area organized thematic studies on:

a) Finance;

b) The international market;

c) Technological evolution.

The first observation is that agro-food businesses and textiles have the greatest added value in Africa.

The second observation is that African industry is very poorly integrated in the upstream direction, that is to say the transformation of semi-finished products.

The conclusion is that the industries that did not know or were not able to adjust, lack of human resources and sound finances. It is therefore necessary to look to promote investment more representative and more conforming to reality.

If it is urgent to restructure the African economy, it sets in motion a necessary but not sufficient condition in the development process. Against a methodology until now burdensome, it is necessary to grant privilege to a more philosophical approach.

In the process of working together, to have the best chances of success, it is necessary to integrate all of the partners from the beginning of a program.

One must also grant privilege to an under-systematized process of working together, it acts to find structuring agents from the industrial sector.

In Africa, the point of departure is the setting of the working together between partners, all competing actors from the industrialization program.

UNIDO made the final following observation: "despite the philosophy of the process put in place, the African entrepreneurs do not have the perception of a market economy. In these conditions, a pure macroeconomic policy is inadequate or, at the very least insufficient, and it is important to also pursue an active industrial policy. In particular, the conception and organization of contracts, from primary materials to finished products, constitutes a vision to grant privileges."

III.4. EXPERIENCES REALIZED IN TWO AFRICAN COUNTRIES

III.4.1. MADAGASCAR

The structural adjustment program of Madagascar was presented by Mr. Nirina ANDRIAMANASOA, Counselor to the President of the Madagascan Republic and former minister. He first addressed the economic table from profitable countries to those of a few figures.

In 1980 the level of inflation was 18%; the ratio of debt to exports was 18%; the budget deficit as related to GNP was 4%.

All of the measures undertaken to correct this vicious tendency failed and, in 1982: inflation climbed to 48%; the ration of the debt was elevated to 72%.

a) The Position of Rice

Like coffee for Burundi, rice occupies a central place in the economy of Madagascar. With a production of 2 million tons, the Big Island is in fact the first consumer and the first producer of rice in the world. "When the rice is fine, all is fine."

In 1972, Madagascar was a net exporter of rice. But following this, one created an agency holding a monopoly on all the agricultural products, SINPA. And then the infernal cycle began. To such a point that in 1975, one was obliged to create a Ministry of Food responsible specifically for the management of rice. Production saw a brutal fall accompanied by a spectacular rise in the prices of basic Madagascan foodstuffs.

In 1983, one began the suppression of SINPA, the Ministry of Food, and subsidies. And all has returned to order.

b) <u>The Public Enterprise Situation</u>

Since 1975, the Madagascan state has favored the blossoming of a series of small and medium sized enterprises. It was accompanied, between 1975 and 1978, by a wave of nationalizations of banks, the insurance and sugar sectors. At the same time the government proceeded with the creation of other public enterprises.

The experiment rose up to be a veritable economic catastrophe, a black hole for public finances, revealer of the technical incompetence of officials little prepared for management, conceiving their role as a tax on the situation in this very sick sector.

In 1982, the government of Antananarivo was driven to take a series of economic redressing measures:

i) Liquidation of non-viable enterprises;

ii) Putting in place of a plan;

iii) Search for private partners (notably Japan), the state playing the role of "sleeping partner";

iv) Total liberalization of imports and exports.

c) <u>Lessons</u>

The orator ended by reviewing the lessons that one can learn from the Madagascan experience:

i) To augment production, the farmer must take risks. The farmer knows perfectly well how to adapt to new situations, for example when cooperatization proved to be an obstacle.

ii) The guidance of SAP is a long-winded exercise that requires the adherence of the people. The primordial role must be played by the surveillance committee.

iii) Privatization must be scrupulously prepared, because the interests of groups enter into the game.

iv) It is necessary to avoid discontent of social groups that risk feeding discontent.

v) Creditor countries were too late to take steps to annual susceptible debt to lighten the balance of payments.

vi) When the indicators began to turn green, the impatience of the population was too great.

vii) Liberalization of the economy must be accompanied by that of the press and politics.

viii) It is in developing the autonomy of women that one can act positively on the demographic explosion.

d) Present Situation

i) In 1989, the level of exportations had caught up again with that of 1979.

ii) The liberalization of imports brought a drop in prices during which time marketing returned with the revival of advertising.

iii) The export businesses have begun to diversify.

iv) Foreign investors show more and more interest.

v) With the liberalization of the economy, politics and the press have fallen in step.

e) Where is Madagascar Headed?

For the moment, the Big Island is under adjustment with very encouraging results. The problem is that Madagascar produces goods that are more competitive than complimentary to those of other states in the region. But negotiations are on track in this area, notably at the heart of the ZEP.

The population is beginning to be optimistic, this is the most important gain, this is the engine of SAP.

III.4.2 GHANA

a) The Roots of Evil

The experience of Ghana was presented by Mr. Abner BAB KLU, Director of Government Receipts to the Ghanaian Minister of Finance.

At its independence in 1957, emphasized Mr. KLU, Ghana was relatively well endowed in natural resources, in the framework of worth and infrastructure; all combined with an flourishing interior commerce that permitted an impressive level of growth of 7% per year until 1960.

From this date, the situation progressively deteriorated until attaining a negative growth of -2% between 1970 and 1978, the record was -6% in 1982.

The persistent decline of coco, mineral, and timber production ruined public finances. To finance the debt, the government took recourse to bank lending and especially to the production of bills from its central bank. This made inflation climb to 62% between 1974 and 1983.

The of the bad come from the excessive application of policies of direct control of prices and credit. This control was institutionalized in 1972 and understood itself to change. The level of this last remained unchanged during several years, knowing the first devaluation of the "cedi" of 30$ in 1967 to decline until nearly 300% in 1978.

Between 1978 and 1982, Ghanaian money was overvalued 445%, such that inflation climbed to 580% and commerce ran a deficit of 45%.

The overvaluation of the "cedi" signified the growing decline of coco, mineral and timber revenues. The elevated level of domestic inflation rendered too expensive the cost of production of exportable goods rendered uncompetitive in this way on the international market. Wedged between increasingly elevated costs of production and the fall of their revenues, the majority of planters turned toward the production of basic foodstuffs which were more profitable because of their demand on the market.

The coco plantations were abandoned in this way. Furthermore, the difference of prices between Ghana and its neighbors encouraged a brisk outburst of fraud in coco, rubber, gold and diamonds.

Certain producers operated on the local market rather than export, because the overvaluation of the domestic money and the elevated rate of domestic inflation.

The control of prices and of distribution was instituted to protect the real revenue of the poor and to prevent an excessive enrichment of the poor and to prevent the excessive enrichment of the most secure. But the non-desirable effect of the system was the development of parallel markets at the heart of which favored merchandise was finally sold on the black market over which the authorities had no control.

This fraud was equally favored by the considerable difference between the official level of exchange and that of the parallel market. The control of prices and the level of exchange no longer had any sense then. The merchants realized in this manner very significant profits.

The situation created in this manner the growing disinterest of the productive forces in agriculture and industry to be carried into the service sector.

b) <u>The Program of Economic Redressing</u>

The first adjustment measures were taken in 1983 and should have run until 1986. Characterized by an active exchange rate policy, this first phase was placed under the label of stabilization in:

i) Realigning price disorders;

ii) Restoring monetary discipline;

iii) Lifting the infrastructure breaks;

iv) Encouraging enterprise and producers.

The second phase (1987 - 1990) consisted primarily of consolidating the acquirements of stabilization; to liberalize the markets and to institutionalize the economic reforms.

Thus, the process of depreciating the currency was carried out. The liberalization in 1989 brought on the suppression of import licenses. The financing of the deficit by the central bank was at the base of inflation and it was necessary to abandon this.

The results were encouraging, but not all happy.

As the borrowing of the administration from the bank declined, savings did not rise as expected.

At the level of direct investment, the rise was insignificant.

The repatriation of numerous Ghanaians from foreign countries augmented unemployment.

c) Lessons

To end, Mr. BAB KLU briefly cited a few lessons of the Ghanaian experience:

i) It is necessary to combat the rigidity of prices, the rate of exchange and the level of interest in a systematic manner and by phases following evaluation because the elasticities are not evident;

ii) Liberalization must be introduced by steps following a pragmatic approach;

iii) The fight against inflation must take into account other parameters or it will drive recession; but if inflation remains elevated it is counter-productive to liberalize the rate of interest and prices;

iv) The experience of Ghana demonstrates that the step of SAP execution remains difficult especially when the government and the people do not believe in it.

III.4.3. DEBATE ON THE EXPERIENCES OF MADAGASCAR AND GHANA

A lively discussion followed the two exposes on the said successful adjustment programs.

a) It is clearly apparent that economic reform does not have a chance to succeed if it is not accompanied by adequate institutional reforms.

b) Measures of direct control are not to be absolutely excluded. These are useful tools in the short term, but it must not become entrenched, at least for the long term.

c) Structural adjustment here to help unblock the economy. It is however difficult to correct in 2 years the errors of two decades of economic mismanagement. This this a sickness which heals slowly.

d) It is confirmed, at least in Ghana, that commercial banks do not help much in economic reform. They only used to little harm their own capital. It is therefore necessary to reform them.

e) Privatization is done with national and foreign savings under the form of a "joint venture". If it difficult to stop in mid-flight, privatization is proves to be a delicate exercise.

f) Liberalization permitted the elimination of corruption linked to the privileged granting of import licenses. But power is displaced, notably toward the judicial machinery. To totally liberalize is an assured disaster.

g) The social costs of adjustment can be heavy: the Madagascan delegate recalled that, in his country, one perceived the social effects of adjustment very late when one had already arrived at the soup kitchen. If it was necessary to begin anew, it would be necessary, from the beginning, to integrate the social dimension.

h) In Ghana, operation "D.S.A." cost around 50 million U.S. dollars. No less than 45,000 public employees were released, others took an early retirement. Thousands of workers in the private sector equally lost their employment. The indemnities of departure attained 1% of the GNP.

IV. SYNTHESIS OF THE DISCUSSIONS ON SPECIFIC THEMES

The colloquium benefited from an international gathering that guaranteed seriousness and high tenor of communication.

As foreseen, the proposed themes for analysis:

a) Exchange rate policies;

b) Producer price policies;

c) Fiscal policy and its impact on private savings;

d) The reform of public enterprises and privatization was revealed to have primordial importance for the remainder of the colloquium.

The light of experiences realized under other skies, the debates were enriching, essential questions were posed to the participants who tried to give creative responses.

IV.1. EXCHANGE RATE POLICY

The debates were animated by Mr. Plane who presented awakening communication "Exchange rate policies in Africa face the exigencies of stabilization and structural adjustment."

Discussions on this subject were essentially on the following aspects:

a) The effects of devaluation

b) The use of alternative instruments

c) Multiple exchange rates

a) The effects of devaluation

It was remarked for this subject that there are two schools that judge differently the impacts of devaluation on the economy. For the liberal school, adjustment of exchange rates is indispensable and beneficial for stabilization and the development of the economy. This adjustment to the external value of the currency notably permits modifications in the internal price structure. These modifications are in a sense an improvement in the competitiveness of the economy.

The neostructuralist school denies all beneficial effects of monetary devaluation and considers the problems of African economies to be more of a structural than monetary order.

The debates brought out that each of these schools has followers with those intervening in African economies.

In conclusion, it appears however that the experience of the majority of countries demonstrated the use of the exchange rate instrument for the stabilization of imports, to dampen inflation and to promote exports. Nonetheless, a single devaluation is not sufficient, it must be accompanied by other measures such that:

i) A recovery in the net flux of capital;

ii) Adequate monetary policy;

iii) Realistic fiscal policy;

iv) Dynamic commercial policy.

In other respects, the confidence of economic operators in the official exchange rate policy is one of the indispensable conditions to its success.

It was noted however that one of the major inconveniences of devaluation for African economies is the further burdening of the debt which follows.

b) Use of alternative instruments

The question was to know which other instruments one can use when one does not want or is not able to proceed with devaluation (case of the franc zone where devaluation is possible, but practically undoable because it involves several countries at one time including France).

In the absence of devaluation, the renewal of competitiveness can be returned by a strong slow down of monetary aggregates, more push efforts at the level of public finance and the research of greater productivity in the productive system, notably the skew of a reduction in unitary production costs.

c) Multiple exchange rates

Multiple exchange rates can be direct, in which a discrimination of goods is necessary (priority and non-priority) with official definition of at least two rates of exchange, or indirectly by a skewing of the commercial policy (subsidy of certain exports and/or tariff rights on certain imports).

The experience lived by certain African countries (Ghana) in the domain of multiple (direct) exchange rates is not proved very conclusively (administrative costs, fraud, corruption, under splitting-up, over splitting-up).

IV.2. AGRICULTURE PRICE POLICIES

The debate on the question of producer prices was organized around the expose of Mrs. Salinger. The participants exchanged points of view on the following subjects:

a) Questions related to subsidization;

b) Questions related to incentive measures;

c) Questions related to food security;

d) Problems with the marketing of agricultural products.

a) Subsidies

The participants recalled that the question of subsidies must be studied in all its dimensions, sometimes even, case by case, and analyze its impact on the other sectors of the economy.

On this question, one noticed two tendencies. Some are against subsidies because they are expensive for the government, and demand technical improvements.

Others, will consider the fact that the economy of many African countries is based on agriculture of measures favoring the direct subsidy of transfers in the short term or a better distribution can be encouraged. The subsidy of products remains to be taken with caution because it can bring along other harmful doings, especially when these products are not directly consumed by a majority of the population , and bring along an onerous cost for governments.

Otherwise, indirect measures going in the direction of establishing tariffs in view of protecting local products can accompany the subsidies.

b) Incentive measures

According to classic incentive measures, one recalled the place of agricultural price reform. This policy proved complex and because of the difficulties linked to the measure of international price reference. The response to the rise of prices has the inherent limitation of all reforms of agricultural producer pricing. On the side of debt reform. it would be necessary to think of measures aiming at productivity and efficiency as research, the improvement of technology and management, and farming methods. All of these measures depend on a rise in production, and consequently, the revenue of producers and coming from this a complement to producer prices.

c) Food self-sufficiency

Food self-sufficiency remains a primordial factor for the harmonious development of nations because, in the case of scarcity of foodstuffs, one must run back to food aid with all the consequences that this can have. As African countries essentially live agriculture the distortion between the development of export staple crops is to be avoided while each time respecting the principle of comparative advantage.

d) Problems with the marketing of Agricultural products

The participants observed the necessity of improving inter-regional exchange and trying to diversify the gamut of products to be marketed in sub-regions. This would permit more interesting markets and break the traditional export products myth (coffee, tea, coco, cotton, etc.).

After the experience of one or the other, many products are not sold if one considers all of the national production by country, there is reason to believe that a good part is not sold.

A few problems were raised, notably:

i) The difficulties that arise from the liberalization principle itself. Products which originate from the South, sometimes taxed, encounter those from the North that are usually subsidized.

ii) The sales circuits are not always improved.

iii) Administrative constraints can constitute veritable barriers as far as the distribution of products and make the consumer price more expensive.

iv) The majority of agricultural products are perishable and difficult to transport.

v) The purchasing power of populations is weak on occasion and the market sometimes remains limited.

IV.3. FISCAL POLICY AND SAVINGS

Two exposes were done on the theme of fiscal policy. First of all theoretical observations and then the impact of fiscal policy on savings.

Following the two exposes, several people took the floor to emphasize the necessity of reviewing the manner of imposing on economic operators, referring to the method of determining the base that one can impose; the rate; previewing the possibility of simplifying the law to improve the tariff administration; the possibility of creating neutral taxes that do not create distortions, and the association of the private sector in fiscal policy reflection.

Others emphasized that a tax is not such when it is paid. The problem of fraud is preoccupying and should push those responsible to see its origin, be it in explaining the law; or in referring to it.

Briefly, the preoccupation of the government should be to put in place a system that does not discourage savings or investment. Fiscal policy should also not block the creation of employment.

Several participants mentioned that savings of the informal sector is not sufficiently mobilized by financial institutions. An effort in this direction was judged necessary.

It was otherwise perceived that the Investment Code should be accompanied by other measures adapting it to the necessities of investors.

An effort to regionalize fiscal reform was hoped for to assure coherence at the level of regional integration.

IV.4. THE PRIVATE SECTOR AND PRIVATIZATION

The communication on the reform of public enterprises was centered on the privatization aspect and articulated on 3 points:

a) Privatization policy;

b) Development of the private sector;

c) Chambers of Commerce and their role.

On the subject of Privatization, the following reflections were added by the participants:

a) All countries do not have the same capacity for privatization; it is necessary to preliminarily evaluate the capacity of the private sector to purchase public enterprises;

b) It it not advised to finance privatization through borrowing; in certain cases, Privatization does not bring an increase in global investments from the private sector.

c) It is sometimes preferable to establish competition before Privatization;

d) To prime privatization on a large scale it is necessary to start the good businesses and not with the lemons;

e) One must avoid privatization created by the newly rich and the newly poor, privatization must be transparent;

f) Privatization is a difficult exercise that must be well prepared to succeed.

The colloquium participants were very interested in the question of the promotion of the private sector. It was notably a question of redefining the respective roles of the public sector and private soul of the economy; in particular the participants insisted on the necessity of developing an honest dialogue between the two sectors by the example of the Asian continent where the government contributes to the promotion of the private sector through chambers of commerce and active professional associations.

In this realm, the role of the chambers of commerce and industry were judged fundamental in the driving of structural adjustment programs; i) Chambers of commerce must furnish the necessary information to national and foreign economic operators on the subject of economic measures taken by the government.

Finally, whether it is for the private or public sector, it is apparent that one must train people and invest in management if one wants to be successful in structural adjustment.

V. CLOSING - SYNTHESIS

Before the closing allocution, the Director of CRED heartily thanked the co-organiser of the colloquium, the Permanent Secretary for the SAP Surveillance Committee, as well as the colloquium participants for making the colloquium a real success; this is the best of the genre.

The closing allocution was pronounced by Mr. Salvator MATATA, Permanent Secretary for the SAP Surveillance Committee, in the name of the Prime Minister and the Minister of Plan.

He recalled that the word of order, "dialogue and cooperation", so dear to the Government of the 3rd Burundian Republic had functioned well during the colloquium. Following this advice, the Burundian officials participating in the work had learned much from the experiences of Madagascar, Ghana, Rwanda, Uganda, Kenya and other African countries and even Asian countries, Europe and America throughout the communications of conference attenders and foreign participants.

The lessons to learn from the four themes of the colloquium are numerous:

In the field of exchange rate policies the orator discerned that among the options of the liberal, neo-structuralist and other schools, exchange rate policy is an instrument that can bear fruits at the level of the stabilization of balance of payments as well as the level of growth, in stabilizing imports and stimulating exports.

The African experiences confirm:

a) The stabilization of imports;

b) Less visible results at the level of exports;

c) A negative impact on the stock of exterior debt;

d) To be efficient, this policy must benefit from companion measures at the level monetary, fiscal and commercial policies.

e) Concerning the use of alternative instruments, the combination of the two is not exclusive, as was the case for Burundi;

f) When using multiple rates, after examining the advantages and inconveniences, prudence requires a general consensus.

Producer price policies prove to be complex, especially in the context of the world market.

The question is not able to be attached from price policies for agricultural transfers and other aspects of administrative character.

Producer price policies must be considered as a necessary condition to create the interest in producing more. One must nonetheless establish it well and certainly accompany it with:

a) Better extension services;

b) Applied research;

c) Improvement of marketing infrastructure, preservation and transformation of stock;

d) Improvement of the administrative environment for the producer.

Concerning fiscal policy, a particular accent was put on the necessity of simplifying the tax law and to revise the assessment on economic operators for:

a) Better efficiency in recovery;

b) Fight against fraud;

c) To not discourage savings, investment and hiring.

The promotion of the private sector was treated in the laudable spirit of research and efficiency.

Privatization was also perceived as a tool and not as an end in itself.

The rich exchanges took place on the difficulties of steering Privatization at the level of:

a) Its financing;

b) Its preparation;

c) Its social impact as far as equity and employment;

d) The training of private entrepreneurs.

The role of the chambers of commerce or other professional associations in the constant dialogue between the public and private sectors was made very explicit.

The orator esteemed that this exercise of collective reflection was a great success and it must follow for SAP that, the world character of this reform must be confirmed ot by need for implementation but by significant results that the world can share in peace and equality.

Warm thanks were addressed to all who contributed to the success of the colloquium of which the results will permit the participants to better understand and better guide certain aspects of SAP.

Done at Bujumbura, June 12 1990
PS/SC/SAP

Opening Speech

by

Gerard Niyibigira
Minister of Finance
Vice President of the SAP Surveillance Committee
Burundi

Permit me first to wish a warm welcome to all of the invited foreigners. Some of them have come against long opposition to associate with us in this work of exchange and reflection on the delicate economic phase that crosses the majority developing of countries. To them, to all who already know Burundi and the Burundians as well as those for the first visit, we wish a pleasant and fruitful stay.

Numerous colloquiums, workshops, seminars and conferences have already been done on structural adjustment. If we have invited you to the colloquium, it is not for the pleasure of a worthless exercise. In our country, dialogue and consultation have become the modes of government. We are not able to not make use of subjects that no longer interest a single country. The majority of Third World countries in general, and for Africa in particular, exposed to growing economic difficulties, have initiated a structural adjustment program, with unequal results. Not one occasion is too many to exchange the experiences of one and other, the difficulties encountered and the solutions brought to them.

The organization of this collective reflection that, we do not doubt, will certainly be fruitful, was only possible with the assistance of USAID and the Center for Research on Economic Development (CRED) of the University of Michigan for which I take the occasion to formally thank their representatives. Permit me to equally make a special note to USAID that has just rejoined the family of structural adjustment funders with initial support of $15 million dollars. They well want to accept the recognition of the Government of Burundi.

Our gratitude also goes to all the delegates of the European Economic Community (EEC), the Economic Commission for Africa (ECA) and all the countries that had the amiability to send us representatives. Their experience will be precious to us. Without their participation, the colloquium would not have attained the level of international participation that we have registered today with satisfaction. We also acknowledge the active and constant solidarity of the United Nations Commission for Africa which has never failed each time the Africans have had to debate their development.

We do not forget our traditional friends in the field of structural adjustment represented or not in this room. I named the World Bank, the International Monetary Fund (IMF), Japan, the EEC, Belgium, Switzerland and Saudi Arabia. They supported us in our first adjustment efforts and we hope that they will continue to do this and pull others in this direction.

A small, land-locked country, dependent on exportable quasi-monoculture and a fragile economic structure, Burundi was not able to escape the economic crisis that hit, at the end of the last decade, all the countries of our continent. To cross this difficult phase, Burundi has initiated, with the collaboration of the IMF and the World Bank, as the other funders that I listed above, its first structural adjustment program in 1986. This first program ought to have run until 1988, year in which the second came to help, only without a dividing date between the two to be determined.

In the course of the four last years of structural adjustment, the accent has been put on financial stabilization, particularly in the budgetary and monetary domains and in the restructuring of economic activities.

In the realm of improving the management of public resources, the government took measures tending towards the following objectives:

i) To augment budgetary receipts by enlarging the base of certain taxes, in over-estimating certain taxes and in reinforcing the fiscal administration for a better recovery;

ii) To rationalize public expenses in putting the accent on better assignment of resources in function of the governmental priorities and opportunity costs;

iii) Reduce the weight of public enterprises on the budget;

iv) To cut a budgetary reform driving a better mastery of public expenses and receipts towards budgetary consolidation.

The government was otherwise engaged in the reform of the public enterprise sector that consisted in the restructuring of several enterprises, the rehabilitation of others toward performance contracts, in the reorganization of the organic framework of the public enterprise sector and to put in place a information and management system for the whole of the sector.

In the domain of improving the economic environment, the restructurization of the industrial sector and the inducement of the private sector, the following policies have put in place:

i) Flexible exchange rate policies;

ii) The liberalization of the majority of prices;

iii) Tariff reform to reduce the protection of local industry;

iv) The promotion of exports to grant fiscal advantages;

v) Revision of the investment code in the sense of favoring profitable investments creating more employment and exports;

vi) Liberalization of imports;

vii) Liberalization of interest rates;

viii) Liberalization of the labor market;

ix) Deliberate credit policy guiding the reduction of net credit to the state in favor of the improvement of credit to the economy.

In the framework of its agriculture policy oriented toward the satisfaction of food needs and the improvement of the production of commodity exports, the Government redefined the policy of intervention in the agricultural sector in the matter of food products, it has liberalized prices and ceased its intervention in their marketing. In the domain of export crops, the government has opted for the improvement of quality and financial incentives in favor of producers. The sub-sector of coffee is a model, five important actions were taken:

i) Investment in the washing factories;

ii) Improvement in the management of washing stations;

iii) Reinforcement of the management capacity of the B.C.C. (Burundi Coffee Company);

iv) Improvement of the mobile scale and introduction of a mobile scale for fully washed coffee.

v) Solicited the private sector to participate in the coffee transformation and marketing process.

In a global manner, the approach of framing the agricultural sector had privileged the need to orient the popularization and research toward the effective demand, i.e. the farmer.

To guide all these ambitious policies, the Government adopted just as ambitious strategies. You will have the occasion to receive the details of these during our debates on the interventions of our experts.

In the social sector, our concern was to protect the existing national programs as defined in the social sector policies, putting the accent on the maintenance of budgetary allocations with respect to the relative priorities which are:

i) Reinforcement of primary health care;

ii) The generalization of basic education;

iii) The promotion of employment;

iv) The development of a strategy for food security and the improvement of general nutrition;

v) The support of locals through protection and social reinsertion.

Despite structural adjustment, the Government did not spare a single effort to protect the social sector, well heard, this is the moment to say it, because of the support of several friendly governments and specialized organizations who continued to intervene in this sector.

At the end of four years of structural adjustment, one observes that the results are varied:

i) The real GNP knew moderate growth without completely attaining all the projected levels (4.4% in 1986; 1.7% in 1987; 3.7% in 1988 and 1.5% in 1989; the lowering in agricultural performance is responsible for the lowering of performance in 1987 and 1989).

ii) The rate of inflation was mastered (2% in 1986; 7% in 1987; 5% in 1988) despite the skid in 1989 that drove a rise in prices to 11.6%.

iii) The balance of payments situation is characterized by a reduction of current account deficits relative to GNP except for 1987 which knew a very important drop in the coffee markets; this favorable current account situation was strongly supported by public transfers and financial support to SAP.

iv) A constant effort was deployed in the sense of the reduction of the fiscal deficit relative to GNP except for 1987 for the reasons indicated above; in 1989 we are at -9.3%.

v) The ratio of external debt service relative to exports is systematically raised to insupportable levels (43.8% in 1987; and 45.8% in 1989) each time the coffee markets drop.

On the whole, one can say that until present one was able to register light economic growth (an average of 2.8% below the rate of population growth). But in reality the internal and external disequilibrium continued, because exogenous factors have each time imposed the level of performance of the balance of payments and public finance. Structural adjustment has already had qualitatively encouraging results all the same. -- in witnessing the best management of public finances, an engagement of exports, greater competition in the productive sector, etc.

This is to say that the piloting of structural adjustment is for us a delicate exercise for which success calls on the combination of multiple and complex factors. Without pretending to pull together the obstacles that set up shop in its court, it seems to me that it would not be unuseful to explain some of them that already seem evident in the case of Burundi.

First of all, it would not be necessary to hide that, in any country, economic reforms call for difficult and sometimes unpopular measures. The success of an adjustment program demands the comprehension and the full compliance of the total population; which demands a supported communication effort to explain without end the merits of the successive measures.

Then, the rigidity and the fragility of the production mechanism does not permit the economy to resist the assault of exogenous factors. The guidance of our programs are also as bashed by the crash of world coffee markets on which Burundi depends for 90% of its export receipts in foreign exchange. The sky is not always clement any longer. We have as well registered the fall of our agricultural production leading a sensible diminishing of projected growth rates and a rise in inflation, and a deficit for current accounts in balance of payments and the budget deficit.

Finally, the weak part of the formal sector in the GNP does not permit the stabilization of public finances via the augmentation of taxes which, unfortunately, has its limits.

Therefore, at present as well as for the future, four important pillars support our adjustment action, and they are incircumscribable:

i) The augmentation of production;

ii) The growth of our exports;

iii) The reduction of the budget deficit;

iv) A good control of credit in favor of the economy.

You therefore easily understand the choice of themes at the colloquium:

- Exchange Rate Policies;
- Producer Price Policies;
- Fiscal Policy and its Impact on Private Savings;

- Reform of Public Enterprises and Privatization.

These are the elements which, sooner or later, all countries under adjustment must confront.

The experience of Burundi in these four domains merit reflection:

I) We have adopted a system of flexible exchange rates. We had the ambition to stabilize imports and increase exports. This measure was combined with others such as tariff reform, its impact is therefore difficult to measure. But we know that the devaluation rose the price of imported products and factors of production that were difficultly substituted such as equipment goods, which rose that stock of exterior debt in Burundian francs. We wait until it insufflates an overgrowth of vigor proportional to exports.

ii) We have a policy of encouraging prices to producers. It is suitable to question the force of this policy to promote the growth of the agricultural sector. Maybe this producer price policy has need of being accompanied by other measures for the improvement of extension services and research.

iii) The Government improved its level tax collection. It is suitable to question the fact that fiscal pressure can handicap the constitution of strong national savings and the constitution of indispensable investment funds to the growth of the private sector.

iv) The state has massively invested in the para-statal sector but it has not paid a return. At the moment where it prepares to progressively disengage to the profit of the private sector, it is suitable to know if privatization is the panacea or if the state must continue a place as an entrepreneur. Which?

You are going to benefit from the contribution of eminent economists whose studies on the cited themes will be put tp your discussion. We will have here the opportunity to encourage them to be practical and to guide the discussions toward practical and useful recommendations. The discussions of the colloquium will also be strongly enriched by the different talks that will be presented by the delegates who took the appreciable initiative to share with us the experience of their country or their respective organization.

We do not doubt that the discussions, conclusions and recommendations of those present and seated will be to better clarify our comprehension of all the mechanisms and constraints of the structural adjustment program. This will allow us to better refine the solutions to apply.

It is on this optimistic note that I declare open the work of the "African Colloquium on the Structural Adjustment rogram". In wishing it success, I thank you.

African Economies and Structural Adjustment

by

Dominique David
Conseiller du Directeur Général du Développement
European Economic Community

In the early 1960's when many countries were gaining independence, the donors as well as the recipient countries felt that the problems of the African nations were of an essentially financial nature, because it was a concern to respond to investment needs, hence the importance attached to an orientation of development aid toward the implementation of projects whose functioning and maintenance stayed outside the responsibility of the recipient. The economic policies, the management of public finances and the socio-cultural environment were not among the foremost concerns. The 1970's were then marked by a period of prosperity in many developing countries, which had the effect of masking weaknesses and allowing the postponement of some essential choices.

But the years of prosperity were succeeded, beginning in the early 1980's, by years of tension, which revealed the profound economic inequalities as much internal as external in most of the developing countries, especially in the poorest of these. Most notably in Africa the majority of economic and social indexes were falling, some even below 1960 levels, causing considerable concern for the future.

The adoption of corrective measures, essentially economic and financial in nature but which generated at the same time consequences whose day-to-day effects weighed heavily on the population as a whole, were revealed as necessary. It is thus that the majority of African countries have progressively put into action, beginning in the 1980's, programs for structural adjustment supported primarily by the IMF and the World Bank. An objective appreciation of the evolution of African economies permits measuring the conditions of success of the politics of structural adjustment, that is of reform.

* * *

After the relative stability of the 1960's, Africa was all at once beneficiary and victim of the prosperous 1970's.

In the course of these years one witnessed a sharp rise in international cash flows fed by diverse elements. The suppression of the linkages which existed between the dollar and gold permitted an increase in the volume of currency emission whose value, whatever the stake, was not contested by the world market. The quadrupling of the price of oil generated the multiplication of petro-dollars.

The exportation of primary materials by the African countries realized a price level which, without being elevated as oil, assured normal returns.

The diffusion around the world of a huge and growing money supply favored strong growth in consumption and the establishment of an inflated climate reinforced by liberal credit concessions to weak interest rates which was facilitated by the abundance of cash in search of placement.

Interest rates were not high, numerous countries were indebted in relation to their absorption and reimbursement capacity, and this gave the impression that inflation would easily put out in time the weight of the debt. It is thus that many African countries were able to borrow for disadvantaged consumption without being alerted by a skidding of their economies which remained hidden, well that it must have, at this time, to deliver them to take reform measures. If they had taken notice of the first signs of deterioration, these measures would have been much easier to impose and to uphold. It is important to not that, around this time of "euphoric indebtedness", the borrower nations and their leaders were far from being the only ones responsible for this situation; certain lenders did not hesitate to canvass in an abusive fashion for clients who did not ask for much.

With the 1980's the situation was profoundly modified. The economies of African countries knew a climate of tension that grew with time. International cash flows were reduced beginning with the second oil shock in 1979; following this, the lenders (principally bankers) chose the best borrowers, leaving aside the majority of developing countries who were considered less promising.

In addition, beginning in 1979, the world economy was characterized by a rise in dollar markets, which raised the price of reimbursing debts, and by a rise in interest rates, which made new borrowing more difficult.

Furthermore, the world markets for the majority of primary materials were affected by strong drops.

The chain of financial backings that followed a pattern of regular growth was broken.

It is then that many developing countries, found in the impossibility of no longer being able to find financial backing, would not reimburse rapidly rising maturities, notably because of the rise of the dollar, and were obliged to admit the state of cessation of payment, beginning with Mexico, who, in August of 1982, had to stop paying its creditors.

During the prosperous years, the public, development-aid organizations were not the most important initial cause of debt. In 1978, for example, of the 100 billion dollars annually that were transferred to developing countries, 80% came from the private sector; in 1983, in contrast, the cash influx had fallen to a little more than 50 billion, but 30 billion of this came from the public sector.

It is therefore in the beginning of the 1980's that public financing received a relatively important place, due to the retreating commercial banks; however the classic means of intervention by public organizations, that is the financing of projects, was no longer adapted neither to the nature nor to the intensity of financial needs of the developing countries.

The policy track of African governments during the prosperous years did not permit one to immediately know the intensity of the problem. Some prestigious projects or projects which were poorly adapted to local structures contributed to the heavy growth of imports, budget costs and loans, without reinforcing the productive foundations of the economy to permit an attack on a future that was growing somber.

This evolution was finally revealed by the greater and greater disequilibrium between national production and consumption (including imports), and between fiscal receipts and budgetary expenses. Several types of actions were then taken, with the same objective: to re-establish the equilibrium. Certain actions had for an objective to reduce the interior demand (in particular that which was satisfied by imports), others were conceived to orient the economy of the country to restart agriculture in general, and food production in particular, in abolishing administrative blockages, notably those which imposed prices on agriculture producers; still others reduced budgetary expenses; finally others raised custom's duties and taxes.

This translated to the decreasing importance of development project financing, and by the appearance of programs of "structural" adjustment, when it concerns remodeling the economy in its entirety, or of "sectoral" adjustment, when a single sector, transportation for example, is concerned. These programs were characterized by much more elevated unitary rises than those of projects and by more rapid outlays.

It is thus that a number of African countries put into effect, with the backing of the Bretton Woods Institutions, some structural adjustment programs to be executed in two distinct phases.

A first phase called "stabilization" had the objective of reforming the financial situation: reduction of internal financial deficits (budget) and the external standardization of monetary management (balance of payments).

A second phase called "structural adjustment" hopes to realize the adoption of structural elements of the economy to actual capacities of this economy: mastery of inflation, adjustment of exchange rates, disengagement of the state to the level of its budgetary interventions, modification of the fiscal and regulatory framework, and the privatization of national enterprises.

The efforts achieved by the African countries to leave the crisis are considerable and are encouraging. The positive results principally concern certain financial indicators or macro-economics: the growth of exports, the improvement of the balance of payments, the reduction of the state budget deficit, etc. However, it appeared that the process of adjustment and the reforms that it entailed demanded much more time and resources which were not anticipated in the beginning. In the majority of African countries, the intensity of the reforms to enact, the strong dependence of Africa on an international environment that remains severe and the "weight of the past" risk burying for several years the perspectives of renewal and of growth.

The results and the problems encountered by the first generation of structural adjustment programs have attracted lenders as well as borrower nations to do an analysis in order to determine the factors necessary to maximize the chances of success.

The African countries have had strong criticisms with regard to the results of the first generation of structural adjustment programs. They have developed an" African frame of reference to structural adjustment programs" (cadre African de reference aux programs d'adjustement structurel - CARPAS), approved in April 1989 during the Economic Commission for Africa (Commission Economique pour l'Afrique - CEA) of the United Nations.

If one closely analyzes this document one is able to determine however that CARPAS sights no less of an alternative than to adopt the concept and the methods of structural adjustment, in light of the difficulties that the first generation of structural adjustment programs encountered: approach too stereotyped and doctrinal, absence of the mastery of social repercussions, and insufficiently takes into account the structural weaknesses of African economies that had prevented the attainment of central objectives for growth.

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From our side, the analysis of the first structural adjustment programs showed that their establishment should be an approach, a beginning, and not a theory. This beginning must be practical and not ideological.

It thus appears that, to succeed, structural adjustment must bring positive answers to six major concerns: to respect the priority of long term development, to integrally rebuild constrained state responsibility to an adjustment, to adapt to the particular context of each country, to assure progressive reforms, to take into account the social consequences and, finally, to integrate regional coordination.

The short and middle range policies, in particular those which see the stabilization of structural adjustment, must support the objectives and efforts of countries long term development and not replace them with their own development priorities.

This must especially be brought about by the search for a better possible equilibrium between actions which entail rapid outlays and the financing of long term investments, as well as the persistent search for a coherence between sectoral policies, partial development, financial measures and macro-economics on the other hand.

On the first point it is interesting to note that the World Bank, after having "pushed" adjustment aid for ASS to 45% for these countries, now recognizes the importance of assuring a minimum of investment.

It is important not to confuse in the call for adjustment too large a portion of aid which is tied to long term development but to designate in all cases a significant portion as accessible funds. In fact, if the sound organization of economic and financial structures is a necessary condition for development, it does not establish , in itself, development that must be stimulated by other arrangements and by judiciously chosen financial investments.

Concerning the coherence between "adjustment" and "development" one is often confronted by objective confrontations that occasionally give place to differences of estimation between lenders and debtors. It is in this way that contradictions are able to exist in research on food self-sufficiency and the liberalization of food imports, or between the upkeep of economic and social infrastructure on one hand and the reduction of budget deficits on the other.

During the whole process of adjustment the appropriate role of the state must be judiciously respected.

The diagnosis and analysis of problems, the conception and the preparation of reform programs must essentially remain in the domain of state initiative and responsibility. Adjustment must always be the "concern" of the state, never a therapeutic administered from outside.

To this end, the World Bank must realize that the "internalization" of an adjustment program ("The government must own the program") is an essential prerequisite. The conception of adjustment must be adapted to each country, inscribed in the framework of political and economic models and respect the orientation of its choices and strategies for development.

If this point seems to make good sense, it merits being emphasized by the first structural adjustment programs which were too focused on stereotypical macro-economic models which did not take into account the peculiarities of each country. The CEA equally emphasized that certain policies, for example the policy of privatization, have sometimes been conceived in a doctrinal manner without concern for the conditions of implementation, for example those in the national private sector capable of a come back.

The pace of the implementation of reforms must be incremental, reasonable, compatible with local capacity, and with the objectives of long term development.

A recent evaluation performed by the World Bank felt that it would be useful to institute radical reform programs while having in mind to carry out as quickly as possible a decisive "global critique". The question remains unanswered however as to what consensus will be able to arise in the future between creditors and debtor nations on the pace of reforms.

In fact, if the argument for the "global critique" of reforms is, in itself, an intellectually viable notion, it is no less than an adjustment program which must above all remain realistic, that is to say doable with the funding that is actually available. A chock therapy demands a reserve of available financing which is very important for being able to face all of the risks.

Another argument in favor of prudence and incrementalism is the confirmation of a generally difficult opening to avoid between the positive effects and the negative consequences of reforms. It is thus that a reduction of tariffs can be rapidly executed; but the suppression of protectionism has an immediate negative effect on national production, that will not make up for a grace period to move the factors of production; the disappearance of a plan has an equally immediate effect on the budgetary equilibrium.

Concerning the social aspects of social adjustment, it appeared, -it is wished-, as components of reform, or as their consequence, -this is more generally the case-, they must be taken in consideration at the beginning of the implementation of adjustment processes and remain a principle and permanent concern.

Finally, the economies under adjustment must be analyzed, at a diagnostic as well as a policy level for implementation, not only, in the national context but also taking into consideration the necessity of regional economic integration and the growth of trade.

In fact, the success of structural adjustment is intimately linked to regional economic integration. An interaction between these two policies can create a favorable dynamic between the two as long as a bad choice doesn't stop both.

If the general disequilibrium of African economies in the beginning of the 80's was a major road block to regional integration, the progress achieved in returning to equilibrium sketches more encouraging prospects for the future. It is still necessary that adjustment in a country take into account the situation of other regional partners and not fly in the face of factors favorable to regional integration. It is thus that the liberalization "erga omnes" of imports in a country of the region are able to have, in development, contrary effects to those that one was able to pull from it in the implementation of liberalization on a regional basis and reciprocate. In the same vain, rapid adjustment of interior prices and rates of exchange, can create disturbances for the regional plan. In the context of the largely permeable African borders, non-coordination at the regional level for adjustment policies could illicit a large rise in informal cross-border trade.

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The considerations which precede are those which must be the object of profound reflection when wants to define the ways and means of structural adjustment.

The six preceding points evoke what was essential to the European Community and to the negotiators from the ACP states who in the Fourth Lome Convention defined the fundamentals of a pragmatic approach to adjustment in working under a long experience of cooperation, a knowledge of the land and mutual respect for the ACP/EEC such that it is expressed in the successive Conventions.

In recognition of the necessity of restoring the economic order that was profoundly degraded, the European Community only acted incrementally and with prudence in support of structural adjustment policies because of its concern that too theoretical a conception could be more dangerous than the damage it was trying to mend. This is the level of reflection, of action, and of negotiation that the European Community implied in this process.

The reflection of the European Community was already a fact in the resolution of the council (that is approved by the development ministers of the member countries) on May 31, 1988. This defined the approach of the European Community to adjustment. At the level of action, the Community put in place, in December, 1987, a 600 million Ecu program for the poor and seriously indebted countries south of the Sahara; this program in particular helped alleviate the debt of several ACP countries, do to sectoral or generous importation programs (PSI-PSG); in reality the Commission financed the importation of primary materials from and to the benefit of the eligible ACP countries.

These elements of reflection and action largely determined the position of the Community in the negotiations at the Fourth Lome Convention. The ACP and Community negotiators made a call to elaborate on the arrangement of this Convention.

The Community will make the most of the approach that it achieved at the Lome Convention in its exchange of views with other lenders engaged in structural adjustment.

In fact, this coordination is indispensable. It is not possible to have a single reform program at the level of a country. But, this implies that the Community abandons its freedom of judgement or that it subordinates its actions and auxiliary decisions that it has not set aside.

In the area of coordination the Community will continue to work for a common goal, defined by each country in conjunction with the lenders concerned, as it was already done for the first measures in support of adjustment that it put into affect. In this planning it will make the most of the individual concepts which were defined in May, 1988 by the Council of Development, then negotiated by the ACP countries and laid out in the new Lome Convention.

The African Experience with Economic Reforms

by

Patrick Bugembe
United Nations Economic Commission for Africa

Distinguished delegates, ladies and gentlemen,

Let me first of all convey to you the deepest regret of Professor Adebayo Adedeji, United Nations Under-Secretary General and Executive Secretary of the Economic Commission for Africa (ECA), who has not been able to come to this workshop. He very much wished and indeed looked forward to being here. But due to unfortunate circumstances, he has not been able to come in person. He has nevertheless instructed me to assure you that he very much appreciates the invitation and applauds the initiative of the government of Burundi in organizing the workshop as well as the support of USAID and the University of Michigan. Indeed, it is a measure of his interest that he has sent a team of five people to be able to fully participate in the work of this workshop.

In my presentation on the African experience with economic reforms, I shall cover three broad areas. First of all, I shall give a brief sketch of African conditions as we saw them in the ECA during the 1980's, a period that witnessed the intensification and spread of structural adjustment programs. Secondly, I will touch on some of the major issues that have led many analysts and policy makers inside and outside Africa to be convinced that there is a need for some rethinking about the design and implementation of economic reform programs. Thirdly, I will focus on the African alternative framework to structural adjustment programs for socioeconomic recovery and transformation, currently known as AFSAP (African Framework for Structural Adjustment Programs) or CARPAS in French (Cadre africain de référence aux programmes d'ajustement structurel).

The picture that emerges from our analysis of the African situation in the 1980's shows decisively retrogression for the region as a whole. It is a period in which most African countries moved from one crisis to another. Some of the crises were social in nature, some economic, and in other cases, they were environmental. Indeed, it is now generally agreed that the 1980's were a lost decade for the African countries.

The retrogression is discernible on the basis of almost all economic indicators. I will just give you a few of them. On a yearly basis, between 1980 and 1989, Africa's per capita income fell from year to year by 1.7 percent. Gross fixed capital formation declined by 1.9 percent. Export volumes went down by as much as 2.7 percent while imports shrank by 3 percent. Unemployment increased four times faster in the 1980's as compared to its rise in the 1970's. The stock of debts that Africa owed in the 1980's doubled, reaching 256.9 billion, while at the same time, the price of commodities from which earnings could be made to reduce the debt, registered what seems to be a perpetual and permanent decline. Indeed, under such trends, the number of countries that are classified as least developed in the whole world increased from seventeen at the beginning of the decade to twenty-eight as I talk now.

Of course, one does not need pure statistical indicators to appreciate the worsening of the social and economic conditions in Africa. You can, at least if you have lived for some time in Africa, appreciate the magnitude of the problems if you take note of the number of children who die daily because of poor nutrition, the number of children who cannot go to school because their parents cannot pay the fees, the number of children who perhaps go to school but cannot have books and pencils and chalk. You can also imagine the number of educated youths who have no employment and continue to roam the streets; and the many families whose purchasing power has been eroded by the massive depreciation of national currencies. And you can also imagine entire countries whose institutions that were once of world class have moved into decay. There are many such sorrowful pictures.

Therefore the question that usually comes to mind is that of why such a situation has prevailed even in countries which adopted structural adjustment programs and received some assistance to support their reforms. I think we need to examine the situation and I am happy we have some case studies, because it is only in this context that we can see the perspectives for the future.

In our own understanding of the situation, of course when we did look at these problems, we asked ourselves why they occurred. But of course, I must pay tribute to the first signs that were raised about conventional programs and their effects. You will remember in this regard that UNICEF raised the first alarm about the many and deepening social consequences of adjustment in African countries. You will recall that they ask for a human face for adjustment. Africa itself, of course, was feeling the serious effects of having followed programs that tended to ignore the human dimension and merely focussed on the attainment of macroeconomic balances, especially the fiscal and balance of payment equilibrium.

It thus then became imperative to think of ways to mitigate the human suffering, especially by the vulnerable groups, the children, the women, the rural poor, and the urban unemployed. It was also necessary to stem the erosion of the potential of human resources, which was associated with prolonged adjustment, with limited resources.

But besides the social dimension of adjustment, when the ECA analyzed the problem more deeply, it found that there were other issues that were as important. First, the economic situation in many adjusting countries did not show distinct signs or sustained signs of growth. It was not clear any more that the programs on the ground held the promise of combining adjustment and growth. Africa had by then upheld and still upholds that adjustment was needed and it understood the sacrifices that it may involve. But Africa had not accepted that it could afford to forgo economic growth for a very prolonged period of time.

At a more fundamental level, there were signs that during the process of adjustment, the business of development had become almost abandoned. In many African countries efforts and resources were all directed to the narrower objective of merely attaining macroeconomic balance. On closely examining these phenomena, it was recognized that it was misleading to divorce adjustment from transformation. The logic would seem very clear, inasmuch as African countries continue to be confronted by their domestic socioeconomic rigidities as well as by the problem of the international economic environment, particularly with respect to commodity markets and international finance, achieving macroeconomic balance would be at best temporary, and at worst illusionary. It was therefore necessary to think about an alternative approach that would concomitantly enable Africans to pursue adjustment without forgetting permanently about transformation.

The other basic African doubts about orthodox adjustment programs were related to their political sustainability and environmental impact. At the political level, there is a general perception on the part of many African countries that these orthodox programs were generally inspired from outside. Maybe this was because such programs have become a major condition for external assistance of the desperate African economies; or maybe because they tended to be monitored mainly by the international and more respected financial institutions. But whatever the case may be, some countries felt some loss of sovereignty over the design, implementation and monitoring of such programs. This was the feeling that often led to a lack of total political commitment and popular support by the people who, after all, were the ones to be affected by these programs.

In terms of their impact on the environment, it has now become very clear that, in many ways, most of the adjustment approaches in African countries were not environmentally friendly. Many of them tended to ignore the effects the prescribed policies would have on the relationships between the people and their ecology and natural environment.

These and other important concerns were behind the formulation of the African alternative. Interestingly, I should report here that these concerns have started to be voiced by the World Bank itself. For example, in its long term perspective study on Africa entitled "Sub-Saharan Africa, from Crisis to Sustainable Growth", a number of questions were raised. I deliberately want to raise those questions because I think we have an opportunity to reflect and perhaps make a judgement on some of them. The questions are as follows:

1. Does Africa face special structural problems that have not been properly understood?
2. Has the institutional dimension been neglected?
3. Have the recent reform programs been too narrow or too shallow?
4. Could the process of formulating and implementing the reforms be improved?
5. Has the effect of external factors been correctly assessed?
6. Are external assistance and debts properly allocated and adequate?

And 7, which is a more fundamental question, is there a long term vision that is both credible and energizing?

It is not I asking these questions. Surprisingly, it is the Word Bank asking them, but they are very pertinent questions.

While I do not wish to prejudice the workshop by giving my own answers to these important questions, I wish to deal with one aspect; this is the external environment. It would seem to us that the reform approaches that have been attempted in Africa have tended to wrongly read the images and signs of the external environment. The impact of falling commodity prices has undoubtedly been catastrophic, such that returns from increased volumes of exports, where they have been registered, have not justified the efforts and sacrifices put into their production. Countries that increased producer prices so as to give incentives for these export commodities found themselves in the awkward position of having to slash these prices as the international prices continue to tumble, so that they would move backward and not have too much product of these commodities whose prices were not fetching the returns. Also, the debt burden has not been or was not, in the original design of the programs, fully understood in terms of its being a major constraint to the success of reforms. In the same way, the stagnation of assistance and the gross conditionalities that have characterized it, were not adequately assessed as constituting a major difficulty in Africa's reform effort. It has now become clear to many that reform efforts, especially structural reforms, need a lot more support than has tended to be the case for Africa.

If this diagnosis is tenable, let me now try to outline to you what Africa decided to propose, as a viable alternative, as an alternative that would mitigate many of these problems. But before I do this, perhaps I should emphasize the fact -- because there has been some tendency to misread the writing about it -- I should emphasize the fact that Africa recognizes the absolute necessity to adjust. There is no doubt about it. The main issue is that of how to adjust, with what objectives in mind, and with what policy instruments. For the African alternative, there were explicit objectives that were set and the argument was that some of these objectives can be achieved in the short term, some of them can be achieved in the long term, but that the process must go on.

Another misunderstanding that perhaps I should clear up is that the African alternative is a framework on the basis of which African countries can design their specific programs. It should be seen as merely a framework, a general structure of thinking, from which specific country policies and programs could be derived.

To abstract a little for you, let me give the characteristics we feel must be central to any adjustment frame. The first characteristic that the African alternative recognizes and takes as its basis is the structural reality of the African political economy. It does not assume that the structure of the African economy can be corrected in a very short term. With this recognition, it proposes the means for socioeconomic transformation and sets out policy orientations to undertake adjustments without postponing the process of transformation. Secondly, the African alternative is human centered. It does not dwell on simple balances of the economy, but it integrates the human dimension within the adjustment process. Thirdly, the alternative is not and has not proposed to be a panacea for all problems. It recognizes that special conditions may require special treatment.

Briefly, its main directions derive from what I said earlier, that is, it is based on the African reality or the reality of the structure of the African economy and it sets out three categories of policy directions. One is the strengthening and diversifying of production capacity. Two is the improvement of the pattern and level of income allocation. And three is the reorientation of the patterns of expenditure for the satisfaction of critical needs of the masses of the African people.

Along with broad policy directions, it narrows down to provide some specific recommendations. It argues, for example, that to be able to produce more and to diversify, we must have efficient resource use as a *sine qua non* condition. It emphasizes the need to eliminate the wasting of resources in unproductive activities. It even dares to propose that military expenditures should be reduced. It does stress the importance of enhanced resource mobilization as a central aspect for increasing productivity. AFSAP also recognizes an often ignored reality in Africa, namely that unless human resource capacity is improved, development is unlikely to be attained. As such, AFSAP underscores the absolute necessity to improve rather than to ignore the social sectors that affect human resources. It advocates increased allocation of resources to education, health, and social infrastructures, including the maintenance of law and order as well as the establishment of democratic institutions that serve the people.

With regard to the pattern of income allocation, AFSAP advocates the need for a pragmatic balance between the public and private sectors. It also advocates the creation of an enabling environment that incorporates the access of opportunities for and the empowerment of the people to contribute to their own betterment and to the betterment of the society as a whole.

On the pattern of expenditure, the African alternative focuses on the satisfaction of critical needs. This policy direction implies the pursuance of food self-sufficiency as one the main goals. It also more broadly calls for the reorientation of the people's consumption patterns which have tended to be out of rhythm with their production pattern potential. The same policy direction would necessarily imply the lessening of import dependency and the better management of external resources and debts so that Africa can stand on its own feet in meeting the essential needs of the people.

To move the African economies in the directions I have just sketched, AFSAP proposes a menu of policies, which are gradual, applicable and flexible enough to address the many distortions of the African economies. In a number of policy areas, the African alternative carefully recommends the pragmatic approach that no prior policy instrument should be seen *a priori* as being bad. It also recommends that some traditional tools of classical economics, that tend not to be applicable in the African economies, should not be used – such as generalized massive devaluation, across the board credit squeeze, indiscriminate promotion of traditional exports, drastic budgetary cuts in essential areas. Instead, it proposes some valuable alternatives to some of these tools.

Finally, allow me to reflect briefly on the possibility of AFSAP's success in implementation. Three new forms of partnership must be brought about if the alternative is to be successful.

First, there must be a new form of partnership between the reforming countries in Africa and the donor community at large. I was happy this morning to hear the representative of the European Economic Community refer to such an emerging new partnership. Indeed, this partnership should involve a more pragmatic understanding of each other's views, positions, and asp: ations so as to more easily map out areas of convergency.

Secondly, African countries among themselves must develop special policy coordination efforts within a viable subregional context. This is important because tensions in neighboring countries can and tend to frustrate the genuine efforts of other countries.

The last dimension, and a very important one, in the implementation of AFSAP is the new partnership that must, of necessity, be brought about between the governments and the people. This new partnership must be stronger and must be transparent so that the people can influence the outcome of the programs.

Examination of the Development of the Industrial Sector in Africa

by

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The reason we are interested in participating in this international colloquium is that we have conducted, at the seat of UNIDO in Vienna, a rather large reflection on the process of structural adjustment which concerns the industrial component, because by vocation we are essentially linked to industrial development. Our experience in the management of industrial development projects in Africa in particular, several years in length now, seems to show that there has been a certain uneasiness at the level of the industrial sector. Therefore we have decided to do a little on the question to see which measures and which types of approaches were necessary to adopt to try to reinforce a little and to try to help the industrial sector in its process of development.

A little oratory precaution. From the methodological point of view, this was a very difficult analysis for essentially two reasons. On one hand because, as you know, the structural adjustment programs are in general a strictly macro-economic vocation, that is they comprise the total economy, not uniquely the industrial sector. On the other hand, since the beginning of the 80's, that is since the appearance of the first structural adjustment programs, there has been a series of other factors totally independent of the structural adjustment programs, that had a more less direct impact on the development of the industrial sector.

It was very difficult to do a part of something, and a very rigorous analysis from the quantitative point of view would necessitate a mass of information that is not available anywhere, particularly for Africa. Therefore we have adopted a method that is more qualitative. This was an examination of the development of the industrial sector in Africa under several angles, in a manner to end, despite all, in a precise as possible analysis. We have proceeded in three components.

For the first part we have country studies. We chose a sample that was not absolutely representative and depended a little on the opportunity and the availability of expert consultants for UNIDO in the different countries. A sample of eight African countries was taken. There was Morocco, Senegal, Ivory Cost, Congo and Zaire for the French speaking countries. There was Ghana, Nigeria and Kenya for the English speaking countries. There was therefore a little from the East, the West, the North and the South. We tried to assure a certain geographic and linguistic coverage. This was the first component.

For another part we have a component that we call thematic studies, that is on a certain number of themes that are common to the majority of African countries, in particular in the case of structural adjustment programs. There was on one hand the problem of financing, on the other hand the problem of access to international markets, and finally the problems of technological evolution.

A third component was that of sectoral studies. We have identified the two industrial sub-sectors the most representative in terms of their contribution to the manufacture added value in Africa, which were the agribusiness and textile industries.

This examination was a long work which practically lasted a year. It utilized much international expertise and therefore generated this workshop that we organized from the 11th to the 15th of December, 1989 at the seat of UNIDO in Vienna and it was entitled "Regional Workshop on the Process of Adjustment for the Industrial Sector in Africa". At this workshop we invited the representatives from 20 African countries.

We had selected the countries on the basis of a "multi-criteria" analysis which took the percentage of value added to the Gross Domestic Product and a certain number of other criteria. We also identified a list of 20 countries. For each of the twenty countries we invited a representative from the public sector, particularly from the Ministry of Industry or Planning, or the two, and a representative from the private sector, preferably industrial. We invited some representatives from other organizations and agencies; in particular the World Bank was represented by two chaired senior economists.

This therefore was the object of a week of debates and heavy work. There exists an introductory report of this workshop that synthesizes a small portion of the information that we were able to collect. We are now occupied with the finalization of a report following the discussions. We envision doing a publication that will be distributed as widely as possible.

Now we pass to the conclusions of the workshop. I'm not going to enter into the details. There are certain conclusions that one hears quite frequently.

One just noted now the fact that this adjustment should be simultaneous in the North and the South. The North actually has a certain portion of the responsibility for the problems encountered by Africa, in particular the fact that devaluation became a principal instrument, one expected that it have a more important and rapid affect, particularly on the industrial sector -- because the structural adjustment programs are inscribed in an optic totally open to external exchanges. One accounts for this not having been the case because of the elasticity of international markets, particularly of Europe and the United States, and that devaluation and weak foreign exchange prices do not necessarily bring along significant growth in terms of the penetration international markets.

In returning, other remarks were that African industry in particular was poorly integrated in terms of up and downstream connections. In particular it more concerned the steps of transformation that one finds at the end of a chain of semi-finished products to make finished products mostly distributed on domestic markets. Therefore devaluation brought a rise in price, in terms of national currency, for the primary materilas of imported semi-finished products. This stronly reduced the marginal benefit of enterprises, and this put them in the red the majority of the time.

The essential conclusion to extract is that, in fact, the idea of the structural adjustment program is to push the economy a little and to indicate a new pricing system that is cleared of all sorts of rigidities and constraints, that is truly market pricing, ad that permits the efficient allocation of resources to the interior of the economy. Therefore adjustment is an optic which is very open to the exterior. Among these prices also figures, as is well known, the price of foreign exchange and the rate of exchange of other terms.

Therefore in the near future, in not so few African countries, -- our experience indicates to us that -- industry in particular, will find itself confronted with a new system of pricing to which they have not been accustomed. There were exchange rate and protectionist policies that heavily favored them before. Sometimes tariff protections were quantitatively levied. Briefly, industry found itself up against a wall and in not so few cases, came out of this poorly. In fact, simply because a part of the industries did not necessarily have the capacity to identify and correctly interpret this new pricing vector they were not able to adjust in an efficient manner. On the other hand, even if they had the means and the capacity, they would not have done it for human resource and financial reasons.

The position of UNIDO is that it is entirely necessary that there is structural adjustment carried out by the intermediary of a pricing system that is more efficient and representative of reality. But this is by the theory. The classical economic theory supposes that markets are perfectly equal and competitive, this is certainly not the case, particularly for Africa. Therefore this brings a whole series of distortions that you know as well as us.

Our position, again, is that we are totally convinced of the necessity and even urgency for a some restructuring of the African economies in particular. But we are also convinced that this might have been a necessary but certainly not a sufficient condition in itself for the development and the process of rigorous and supportable economic growth, particularly that which concerns the industrial sector. We are convinced that all the imperfections and distortions of the market, that remain despite all in the economy, necessitate a certain support and up keep on the part of public authorities and the state certainly necessitate consensus between all the implied partners in the process of industrial development.

We have consequently developed at UNIDO a series of grants, a method that we call "strategic management of industrial development" and this I can rapidly present in two components. On one hand it is at the same time an approach, I will say, nearly a philosophy. On the other hand, it also rests on a fairly elaborate methodology. The methodology is complicated from the technical and quantitative point of view. It is not the object of my discussion here to enter into the details. I am going to simply present briefly the approach. I believe that to present it, the easiest way is to identify two key words. The first has to do with a process of consensus. The second has to do with a systematic or sub-systematic approach.

Concerning the process of consensus, our experience shows that the process of solid industrialization only has a chance to succeed and to function if it integrates from the beginning all the implied partners in the process itself. All the partners, that is, certainly, the agents and the operators of the industries themselves. That is also what one calls the agents of the industrial environment, that is banking services, transportation services, information services, etc. This implies also, obviously, the administration, particularly the industrial administration. Our approach rests on the mechanism of regular consensus between different agents to adjust as rapidly as possible to new conditions, be they domestic, international, imposed by the adjustment process, or be they originating from other causes and consequent reaction, and therefore all this is in the direction of an industrialization process as solid and long range as possible.

The other key word I have indicated is sub-systematic. In fact one understands by sub-system a network organized of economic agents around a process of resource valorization, around a particular market or technology, etc. The idea concerns finding a structural link between a certain number of industrial sector agents who have amongst themselves working relations and who share the same interest in industrial development.

I presented this type of approach last week at seminar which I attended in Zambia. In fact I took the following example. I have considered, for example, the textile spinner which is so classic in Africa. Consider for example that there are three operators, A, B and C: operator A was the greatest in amount and did the spinning; operator B did the weaving; and operator C the manufacturing. If one takes A, B and C one has what one calls, a jargon with us, an industrial sub-sector, that is to say that industry is a sector and textiles an industrial sub-sector.

By contrast if you go see operator A and you ask him to give you a list of all his business contacts, everyone with whom he habitually negotiates and works with in his domain, he is first going to tell you that there is the farmer who brings him the raw product, his transporter, his banker, the administrative agents, etc. He is therefore going to cite you a certain number of persons. You are going to ask the same question of Mr. B who does the weaving, and he will give you a series of names. The same for Mr. C who will give you a series of names. Now you put all these people together and you have what one calls a sub-system, that is, again, all the economic operators together who share more or less directly, near or far, the same interest in the development of a sub-sector, here in particular, the textile sub-sector.

If you want, the idea is this process that one puts in place. We are now concerned with putting this in place in 10 African countries where it functions now for several years with not too bad success. We create the consensus mechanisms between all these operators regularly and periodically. We feed the consensus system with expertise, if it is necessary, and also with strategic information, be it domestic, international, in terms of the market, evolution of the market or technical evolution. But we leave these people to interfere, to interact between themselves in a fashion to identify by themselves strategies to which all adhere and, in this fact, to which all are ready to participate.

Examination of Some Experiences of Madagascar

by

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Madagascar

I have been asked to do a short presentation of the Madagascar experience in the field of economic reform. The organizer has just explained the choice of Madagascar that has a land mass of more than twenty times that of Burundi and eleven million habitants.

For my part, I am very happy to be able to participate in this conference, this would be because this has encouraged me to try to stand back from the action and ask myself questions about the tenants and results of these structural adjustment programs (SAP).

When in 1980 the financial authorities of Madagascar decided to have a stabilization program with the IMF, the level of inflation measured by the indicator of Malagasy family consumption was on the order of 18%, the ratio of debt service on exportation was of the same magnitude at 18%, since the budgetary deficit represented 18.4% of GNP, of which 11.3% was on draw from the Central Bank. This first program with the IMF notably failed on a plan of non-respect for public finance criteria. In 1982, the level of inflation had gone to 31.5%, the ratio of service on the debt to exportation to 72.9%, which brought in a serious crisis of exterior payments. This exterior payment crisis, associated to the crisis revealed by inflation, began to show different authorities the amplitude of the problems.

Since then, that is to say since 1982, all of the programs with the IMF and the World Bank have taken as primary, in their grace period, the progressive taking of conscience of different authorities. I will not speak of the contents of these classical programs, nor of their technical aspects. I will only speak of certain aspects of problems to which we were confronted and for which we were able to try to take together general conclusions.

I will therefore speak in the first place of rice policy. Rice is the principle food of Malagasies, it is the staple food. We eat it three times a day, which puts us at the first level for consumption per head. This is equally the first product of the country, with a production of about 2 million tons. In Madagascar one says that when the rice is well all goes well. This means that when there is a shortage of rice there are political problems.

Before 1972 Madagascar had been a net exporter of rice. The luxury rice was exported. In 1973, the Ministry of Agriculture (SINPA) was created. SINPA was notably in charge of the monopoly on collection, the purchase and sale of rice. The charitable idea behind this was that the farmers would no longer be exploited by middle men. The price per paddy to the producer was fixed by decree and from an estimation of average transport costs, milling, etc., one had a price for average return. And as the sale price for rice was equally fixed by decree, the government took as its responsibility the difference under this form of intervention. Since this diabolical mechanism went into gear, it was necessary to create a Ministry of Food in 1975, for which the function was principally the management of rice. The schema of this diabolical mechanism is the following. The subsidy accorded to SINPA, a firm with a monopoly therefore, would not permit it to cover these costs, then this was an average subsidy that was generally under-evaluated. In addition it was paid late by the public treasury. Not being motivated to collect -- and this was rational behavior -- it did the minimum and one should make up the deficit by the importation on which the firm itself, makes money. In fact, for imports, the government was the importer and the operator of SINPA. And it earned comfortable commissions that were additionally paid to it by the Central Bank. It was no longer profitable for it to import in 1982, and in 1982 we imported for nearly 95 million DTS.

The farmers didn't accept the purchase slips that were presented to them by this firm because it would still be necessary to present them elsewhere to be paid. Furthermore, the price was not sufficient compensation, where the existence of parallel markets, the rise in prices created risks, of never-ending lines. The farmers produced what they had need of, and the saleable surplus diminished, from which there was a rise in importation.

The price of rice relative to other commodities diminished and there was a substitution of consumption: people who previously ate cassava, corn, sweet potatoes, switched to rice that was less expensive; where the rise of needs should therefore be satisfied by imports. These imports represented in 1982/83 from 20 to 25% of total importation diminished proportionally with fiscal earnings because the same merchandise was no being taxed. And this equally burdened the budget deficit because of the subsidies for imported rice.

The low price per paddy did not permit the use of inputs even if this was subsidized; where a base yield and a further rise in importation needs. Finally all of the policies came to subsidize the farmers of exporting countries.

Since 1983, a new policy was progressively put in place: liberalization of the collection, the fixing of a minimum paddy price to protect the producers, rather than a maximum sale price to protect the consumers, and a total liberalization of imports presently from collection and distribution and put in place a buffer stock. Currently the result is that the subsidy no longer exists, the Minister of Food no longer exists. Everywhere, one finds rice with difficulty. Stressing that the policy was able to be put in place notably because of support brought on by the President of the Republic on his Minister of Agriculture in that time, because of this total symbiosis between the Minister of Agriculture and the representative of the World Bank in charge of this question, who permitted progression step by step. A preliminary quick study and the sacking of a model (of which Ms. Salinger could possibly eventually speak, considering that she has not participated, but her cabinet participated in the sacking of this model.). But she has certainly made it possible because of a quasi-immediate confrontation to these measures for private producers and collectors.

The second point that I would like to address today is the para-public enterprise sector. This sector is very important and was very "budget hungry" to Madagascar. Historically, we have three origins of these public enterprises. The first, this is the sector of small public businesses created before 1975 at the initiative of the National Agency for Investment. These were small businesses that scrapped by and could not co-exist with the private firms , subsidiaries of the old colonial money houses.

The second origin: since 1975 a wave of nationalizations, the insurance industry, the banks, the commercial import-export firms, the petroleum sector, the sugar industry, etc.; that was the second wave.

The third wave: a result of this climate of nationalization, during the period 1975-78 of little private investment, for which the decision of the government to invest to as much as possible. This was the new theme song. This was facilitated, as Mr. David said this morning, by the abundance of petro-dollars at this time. There were many propositions from vendors of materials, many poorly financed projects, but accompanied by financing. It was practically the financing that dictated the investments. The augmentation of commercial debts, from hence came the change in the structure of the debt since these were commercial debts; didn't take into account the capacity of absorption of the countries so much from the infrastructure side than the human. I will cite a few examples of these projects. When there was a rice problem, the farmers had reduced their production to the profit of other commodities, the reaction was to say since the farmers didn't want to produce we are going to do it. And we also created OMPIRA, Military Office for Agriculture Production. The idea was that, next to their mission of insuring security, they would produce rice with new techniques. As if once these soldiers were demobilized they would be good farmers. We imported one thousand tractors, one thousand trucks, a hundred steam shovels for hydro-agriculture, combines, etc. This was a financial black hole and a check. They produced little. This is an example. There are other examples of fertilizer factories, cement factories that to this day have never produced.

The managers of these operations were often old civil servants that were technically very good but unprepared for management. The fixed objectives set by the share holding federal government were of little precision. Briefly, they didn't function, and as I just said, barely 10% of these projects were able to get going, I mean to begin to get going.

For the firms that were nationalized, their were competent employees, therefore a certain force of inertia for a period of time, and before managing the situations because they earned for example commissions on the exportation of large products such as coffee, vanilla, clove for which they had obtained -- or rather they were accorded -- a monopoly of control. They were accorded large quotas for importation, but the placing of import quotas had dramatic consequences for production. Important needs were not satisfied because it was pressure groups that played, from where the disorganization of production. The fact of shortage, the inappropriate exchange rate, all that was imported was practically pre-purchased, and the commercial sector totally disappeared. As for example, the people who wished to buy Mercedes trucks stood in line, paid in advance, waited several months before to be delivered in proportion to the quotas obtained by the concessionaire. Each minister would consider the firms under his tutelage as his and would intervene at each step in their management. The interest rate was under the rate of inflation, of where diminution of savings and augmentation of lending. Briefly, this was a sick sector, important and wasting a lot of budgetary as well as banking resources. From where in 1982 there were a number of measures: liquidation of firms judged not to be viable, such as the Military Office for Agriculture Production, the National Agency for Commerce, etc...;

- put in place program plans for a certain number of agencies. A certain number succeeded such as the Agency of National Interest for Agricultural Production, Air Madagascar. Others failed;
- research on partners: example, the government sold 49% of the stock of a shrimp enterprise chronically in debt to a Japanese partner who had become the manager, the government was content in the role of speaking partner. Since that time comfortable profits and dividends;
- total liberalization of imports, liberalization of exports notably of big products such as coffee and cloves.

I spoke to you of the two aspects that appeared important to me as problems that Madagascar has confronted. I have not spoken of hard problems of the budgetary crisis that led to the degradation of road infrastructure, the structure of education, of health and of the disequilibrium that swept away, nor of the disbanding of a thousand government employees that the Minister of Agriculture alone did in 1983. To conclude I will make a few personal reflections in light of our experience.

To augment his production the farmer must take financial risks as selected seeds are more demanding of inputs (fertilizer, herbicide, etc...). But this farmer will not resolve that he is able to make a reasonable additional profit. Our experience has shown -- and this must be true on all levels -- even if the farmer cannot read, he knows perfectly well how to calculate. The farmer therefore has very rational behavior. He does not invest in new techniques as if he were the proprietor of his resources -- our cooperatives were a pure check to this subject -- and he can only resell the surplus at an advantageous price. Not one agricultural revolution was only able to succeed as the political and economic conditions permitted to the farmers permitted just remuneration of their effort. It is rare that farmers rise into violent demonstrations or strikes to show discontent to certain measures that the government has taken. Their means of action are otherwise more formidable and effective. They adopt their life to the conditions of the environment and they pay dearly to the country in full (see our experience in the domain of rice culture).

Secondly, put into action programs such as SAP which is a long winded work and necessitates a certain political will as well as a consensus of the country. If it was to do over again, I would recommend to my government to create, as in Burundi, an oversight committee. This would permit to each to know where one is, to feel part of and responsible. In Madagascar, it was for too long considered the sole affair of the Ministers of Finance, Economy, and Plan and of the Central Bank.

To liberalize the export of a product like coffee for which the market is subject to dramatic fluctuations all in suppressing the role of the office of price stabilization to the level of farmers should be amply discussed before a decision is taken, because the producer is subjected full force to the impact of these fluctuations of exchange and markets.

The privatization of public enterprises must be carefully prepared and done in the open. Many pressure groups intervene. Some special interests enter in the game, sometimes intervening at the level of the representatives of the underwriting country. Some social groups are severely affected by the measures taken and do not have the means to leave by themselves. It is absolutely necessary to take care of them, if not these marginal parties risk feeding the insecurity and instability and menace the prescription of the programs.

Creditor countries delayed too much before taking action on the annulling of the debt without which the net flux of capital was in disfavor of Madagascar. The structural adjustment programs are a necessary condition but not sufficient. And they have need of a net positive flux of capital to succeed. All parts of power are able to mint currency in order to block a system. An authorization is mintable and this corruption poisons the general climate. Liberalization measures facilitate the resolution of such problems.

When the indicators begin to show a green light the impatience of the population becomes greater and it is necessary to try to rapidly involve the maximum of the fruit of the rediscovered growth.

At the beginning of liberalization, the population is enthusiastic. But these people who are not accustomed to competition no longer have a single reserve. Adam Smith said that the taste of one's proper interest suffices to insure the interest of all. But someone else added -- and I will agree with him -- that the government arbitrates a role to play so that love of him knows better that he wins only when this good is understood for all.

As one has already said this morning -- and I abound in this sense -- the liberalization of the economy must be accompanied by equivalent measures on the plan of the press and the political life. Our countries suffer, in my opinion, a mass poverty. This problem is not able to be resolved that by the creation of employment remunerator, notably for women who produce the majority of agriculture products. Our experience has equally showed that in developing economic autonomy for women that they voluntarily reduce the number of their children. And the decline in the birth rate, fundamental for us, in my opinion, is able to preliminarily enrich the producers.

To speak of the market economy practically implies to do it at the present world level, or less, at the regional level. The measures taken are only the reflection of the integration of the economy of our country to the world economy, than by bias of the liberalization of fiscal policies that diminish the production of local industries, our economies become more and more exposed. Some measures taken are in particular destined to pull private foreign capital that comes in under public aid and financing of international organizations to assure this net flux of capital for which I just spoke about. How many times has our country not spoken to take in hand their economic destiny? How many times have we not spoken of the conquest of economic independence after that of political independence?

Our resources in agriculture, minerals, tourism, etc. that we are not able to fully exploit because of capital fault, must they await the possibilities of future generations? Or accept to divide the exploitation with foreign partners? This will certainly improve the immediate well-being of our population by the creation of remunerative employment, all in leaving aside the question of equitable division of the results of this joint venture? Of that we have accepted the different SAP, we have already chosen. It is necessary to take conscience. Economic adjustment appears no longer the frontier and the coordination of political economies advocated by this by that doesn't have other goals but the integration of economies to the world economy. Well in the economic domain of nationalism, it is no longer the reality or is it another form of nationalism. Is it another question or is it all the question posed by the SAP?

To end, where are we actually in Madagascar? Madagascar comes to be classed by the Director General of the IMF in the first group of seven countries where, it appears, one has gained it a lot of success, with Ghana, Senegal, Kenya, etc. Of which success does it mean?

The imports of 1989 are barely at the 1977 levels. But they have stabilized. Briefly, we no longer live above our means. The sensation of punishment has disappeared. The stores are refilled with merchandise, the prices are irritating for everyone, perhaps frustrating for some.

The liberalization of imports benefited consumers by the lowering of prices due to the concurrence. The commercial sector returned and for that there was more to see than the advertisements that appear in the media. The exports began to be more varied and less sensitive to the fluctuations of markets. Some particular efforts were done on the budgetary plan for the said social Ministers, notably Education and Health. And this permits a great number to rapidly feel the effects of growth, notably in the health domain. Exterior commerce began to be more diversified and no longer uniquely with the old metropolis. And that some particular efforts must be done in the area of languages. This is important for the opening of our economies. Presently tons of investors are in the middle of coming to study and locate in Madagascar.

Finally an era of liberalization on economic, political and media plans, etc., and certainly we have made some hope for the population. The population does not know what exactly, but for a time, they seem more optimistic. And I believe that this is the most important gain in our country and our greatest engine in the future.

Where should we go? If we always wait for the others, there will be new styles there. For the moment this is SAP. Tomorrow it will be something else. We should put ourselves in charge particularly because of the events that are occurring in Eastern Europe. We should first count on ourselves to try to overcome national egos and integrate into the regional approach, as he said this morning, in SAP. We often produce the same products and we are competitive. It would necessitate us to try to research compliments, to enlarge the markets of our industries beyond those of our countries. This could be done in the framework of the restructurization of public enterprises. And we have to begin to bite into negotiations of this nature with neighboring countries.

Examination of Some Experiences of Ghana
1983 - 1989

by

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CONTENTS

I. Introduction

Over the past decade an economic "doctrine" known as structural adjustment programme has come increasingly into favor in some quarters. The basic tenet of this "doctrine" is that economic reforms implemented through the medium of free-market forces normally do enhance the possibility of success in the establishment of a sustained economic growth and development. The devotees of the doctrine are required to profess an abiding faith in the efficiency of the market system and accordingly submit themselves to the discipline of the market without wavering in their resolve.

Literature on economic development has asserted that the inherent defects in the free-price mechanism (issues of equity, dynamic factors and departures from perfect competition assumptions) apart, the policy measures adopted by many authorities in Africa rather tend to compound instead of removing the deficiencies in the working of the price mechanism. The wrong and distorted price signals transmitted by the markets to the producers and consumers lead to gross inefficiency in the use of both scarce and abundant resources. Ultimately economic growth and development are constrained.

This paper attempts very briefly to establish whether or not these assertions are valid in light of the past and recent experiences of Ghana in the field of economic policy reforms.

II. Persistent Economic Decline: Contributory Factors

At independence in 1957, Ghana had relatively well-endowed natural resources, comparatively well-developed human capital and infrastructural facilities which combined with a large accumulation of foreign exchange resources enabled it to achieve an impressive GDP growth rate of 7% per annum up to 1960. Thereafter the economy went along the path of gradual but persistent decline in GDP growth. During the first half of the 1960s the average real growth rate was 2.6 per cent per annum and during the second half it dropped slightly to 2.4 per cent. Between 1970 and 1978 the rate remained almost stagnant only to deteriorate to an annual average negative rate of 2% up to 1982, a year which recorded minus 6.1 per cent the lowest ever. (See Table I).

The deterioration in the performance of the export sector is indicative of the general decline as follows:

	1970	1983
Cocoa (tonnes)	337,000	158,000
Gold (f.l.o.)	703,900	276,600
Diamonds (carats)	2,549,500	339,500
Manganese (tonnes)	500,000	173,000
Bauxite (tonnes)	336,600	70,500

TABLE I. GHANA: SELECTED INDICATORS OF ECONOMIC PERFORMANCE

	1977	1978	1979	1980	1981	1982	1983
Real GDP growth	2.3	8.5	-3.9	1.2	-3.8	-6.1	-2.9
Inflation Rate	116.5	73.1	54.4	50.1	116.5	22.3	122.8
Exchange Rate(C'/$)	1.15	1.76	2.75	2.75	2.75	2.75	27.87
Parallel Rate	7.69	10.00	14.29	11.11	50.00	120.00	97.00
Cocoa Exports('000 tons)	232.9	203.4	199.0	184.7	266.3	163.4	148.9
Producer Price(C'000)/tonne	0.7	1.3	2.7	4.0	4.0	12.0	20.0
% f.o.b. Receipts to Farmer	30.0	30.0	26.0	86.0	267.0	38.0	24.0
Gold Production('000 ounces)	480.8	402.0	356.7	353.0	340.6	330.5	281.3
Gov't Revenue & Grants as % of GDP	13.8	12.5	10.3	6.9	4.5	5.1	5.4
Gov't expenditure as % of GDP	27.0	17.9	16.9	11.1	11.0	10.8	8.0
Development expenditure as % of GDP	6.2	3.8	2.1	3.2	1.9	1.0	0.7
Overall Deficit as % of GDP	(13.2)	(5.4)	(6.5)	(3.8)	(6.5)	(5.4)	(2.6)
Minimum Wage(cedis/day)	3.00	4.00	4.00	5.33	12.00	12.00	25.00
Real Minimum Wage (1975 = 1.00)	0.89	0.68	0.44	0.39	0.41	0.33	0.31
% Change in M2	59.7	67.7	15.7	34.4	51.9	42.4	42.0
M2/GDP ratio	29.0	26.1	22.7	18.5	16.6	19.0	12.8
Gov't Borrowing as % of M2	89.2	86.5	86.7	87.6	83.1	70.6	89.6
Nominal Interest Rate	7.5	12.0	12.0	12.0	18.0	8.0	11.0
Real Interest Rate	-92.3	-81.1	-74.7	-34.1	-83.5	-13.2	-100.7
Balance of payments(Million US $)							
Current a/c			121.8	27.9	-421.8	-74.4	-157.6
Merchandise Imports			-803.1	-908.3	-954.3	-588.7	-499.7
Merchandise Exports			1,065.7	1,103.6	710.7	641.3	439.1
Payments Arrears			-74.9	-79.1	141.5	35.2	-33.7
Debt			1,023.5	1,135.8	1,184.8	1,086.4	2,039.1
Debt Service Ratio			3.4	7.4	10.9	12.2	30.1

The persistent decline in the production of cocoa, minerals and forest products caused decline in export and import tax revenue. In the case of tax revenue from incomes, stagflation eroded the tax bases and direct controls shifted transactions from official to parallel channels which were outside the reach of the tax authorities.

To finance the gap between total tax revenue and total expenditure the authorities took to borrowing from the banking system especially from the central bank. In 1982, for instance, the overall deficit was 4.5 per cent of GDP as against 6 per cent for total revenue as percentage of GDP. One of the major inevitable repercussions of borrowing from such a source was the provision of additional impetus to inflationary forces originating from other sectors. The annual rate of inflation between 1974 and 1983 averaged 62 per cent.

The root cause of the decay of the economy over a period of two decades was the excessive application of direct control policy measures instead of market-oriented policy measures in the field of economic management. In 1961 a regime of import licensing was introduced in the face of emerging foreign exchange resource constraints. Except during 1969 - 71 when it was gradually relaxed, the system of import licensing was maintained for well over 26 years while the basic problem of foreign exchange generation was half-heartedly attended to.

Another sphere of economic management where direct control policy measures were favored at the expense of market mechanism related prices. The system of direct prices and distribution controls was established in 1962. In 1972, the regime of price controls was institutionalized by the creation of the Prices and Incomes Board to provide general guidelines for the design and implementation of administered prices.

The policy of direct controls extended to exchange rate management as well. In the face of the poor export sector performance and insignificant net capital inflows, the exchange rate was often made to remain unadjusted over long periods of time. The first exchange rate adjustment was in 1967 when the cedi was devalued by 30 per cent from US $1.00 = C1.02 and with the aid of fiscal and monetary measures it helped relieve partially the pressures on the balance of payments. The country had to wait for six more years for the exchange rate to be adjusted to US $1.00 = C1.15. This rate was maintained until 1978 when it was pegged at US $1.00 = C2.75. Between 1978 and 1982 while the rate of inflation measured about 580% as against the weighted inflation rate in China's major trading partners of 45 per cent, the exchange rate remained unchanged thus causing the cedi to be overvalued by about 445 per cent.

How successful was the system of direct controls in helping China to achieve the multiple policy objectives of growth in output, maintenance of stable domestic and external prices and desirable equity in the distribution of incomes? The undue overvaluation of the cedi meant increasing fall in the incomes received by cocoa farmers and exporters of minerals and forest products. The high domestic rate of inflation increased the cost of producing export goods rendering them uncompetitive in the world market. Caught between rising production costs and falling incomes, some of the cocoa farmers shifted to the production of food staples which enjoyed relatively favorable terms of trade. The farmer therefore abandoned the cocoa farms. In addition the producer price differential between Ghana and her neighbors encouraged very brisk business in the smuggling of cocoa, timber products, gold and diamonds. Some timber merchants found it more lucrative to trade their products in the domestic market rather than to export them because of the overvaluation of the cedi and the high domestic inflation.

Price and distribution controls were institutionalized to protect the real income of the poor and to prevent manufacturers from reaping excessive economic rents. But the unlimited outcome of this system was the creation of parallel markets where goods quantitatively allocated direct to some favored groups through a cheat system at officially controlled prices were ultimately sold in black markets over which the authorities had no control. Likewise the wide gap between the official foreign exchange rate and the scarcity value of foreign exchange resources gave rise to emergence of active parallel markets and smuggling. As a result, the objective of direct control of both the foreign exchange resources and the rate of exchange were unattainable in practice. The high black market prices and rates of foreign exchange conferred abnormally high profits on those who managed to gain access to import license and goods (both locally produced and imported) at controlled prices. Apart from breeding malpractices of all descriptions in the foreign and domestic trade transactions, direct controls caused a shift of the labor force away from the directly productive sectors of agriculture and manufacturing into the service sector.

In sum, the economic crisis that confronted Ghana in the early 1980s was to a very large extent the inevitable result of decades of poor economic policy measures characterized by excessive direct controls. Exogenous factors such as the vagaries of the weather and external shocks – high increases in energy prices, the worsening terms of trade for Ghana's major export products, the steep rise in international interest rates and finance – were partially to blame. The crux of the matter is not the effects of the exogenous shocks on the economy of Ghana but rather the choice and design of the policy measures and instruments adopted to effect adjustment to the external shocks and the outcome.

III. The Economic Recovery Programme

In April, 1983, the authorities launched a package of economic policy reforms named "The Economic Recovery Programme" (ERP) which was the first comprehensive national effort in a period of two decades to initiate the process of adjusting the structural imbalances so as to lay a solid foundation for restoration of economic growth and development.

The ERP has gone through two distinct but inter-related phases since its inception. The first phase ERP I (1983 - 86) dealt primarily with stabilization and had the overall policy objective of halting and then reversing the decline in the productive sector especially the export sector. The policy framework covered the following: realignment of the grossly distorted relative prices principally through progressive exchange rate depreciation and price decontrol; restoration of fiscal and monetary management discipline through containment of budgetary and central bank credit levels and greater tax resource mobilization; and initiation of the process of the removal of infrastructural bottlenecks. The programme was implemented with a considerable amount of external assistance. Though demand management was emphasized, rapid disbursement facilities and producer incentive schemes were provided to reactivate latent productive forces.

The second phase ERP II (1987 - 90) was formulated to consolidate the achievements of the stabilization and to launch simultaneously its own thrust on supply-side management issues. The main economic policy objectives were to intensify the process of exchange rate, trade and price liberalization; and to institute sector and programme specific reforms to sustain an annual average economic growth rate of 5 per cent over the period.

Exchange Rate and Foreign Trade Policy

It was generally recognized that the success of the ERP depended on the flow of adequate amount of foreign exchange and that in specific terms the multiplier effects of a cocoa sector recovery on export earnings, incomes, employment and tax revenue could not be matched by the multiplier effects of any other sector on those target variables. It was further recognized that for a long time to come cocoa possessed the highest potential for the generation of foreign exchange earnings provided the exchange rate was allowed to play a key role in the determination of cost-pride relations of imports and exports or foreign exchange supply and demand. Accordingly in April 1983 a systematic and active exchange rate policy was initiated. Over the years of the ERP the exchange rate policy has proved to be the cornerstone of the economic reform programme.

The exchange rate depreciation process started with a scheme under which bonuses of two types were paid on specific categories of export goods and services and surcharges of dual nature were levied on specified users of foreign exchange while the rate of exchange remained the same. In other words one set of bonus and surcharge amounted to 7.5 times the exchange rate of US $1.00 = C2.75 and another set of bonus and surcharge amounted to 9.5 times the exchange rate implying effective dual rates of US $1.00 = C23.38 and 29.98. The scheme proved too tedious and cumbersome to administer and the two rates were therefore unified at US $1.00 = C30.00 in October 1983. Further rate adjustments were made in 1984 and 1985 at an average of three times per year until a two-tier exchange rate regime was re-introduced in September 1986. Under the new dual rate system, the first window offered an administratively determined rate of US $1.00 = C90 while window II offered an auction market determined rate. Window I rate applied to earnings from the export of cocoa, residual oil as well as imports of petroleum products, essential drugs and service payments of government debt contracted before January 1, 1986. The exchange rate at window II was applicable to all other transactions through the official banking system.

In February 1987 the two-tier system was abolished and a unified exchange rate regime based on weekly foreign exchange auction was set up. The aim was to provide foreign exchange financing in a timely manner at a price which reflected the prevailing scarcity value of foreign exchange. In subsequent development, the Bank of Ghana licensed individuals, organizations and institutions to operate forex bureaux to buy and sell foreign exchange at freely determined prices in order to attract foreign exchange which was held outside the banking system. The bureaux were meant to serve as a safety valve for the auction market.

To eliminate the use of administrative mechanisms in the allocation of foreign exchange all goods under the Special Import License (SIL) except five items on the negative list and those on prohibited import list were made eligible for funding under the auction. Another important milestone on the road to absolute liberalization of foreign exchange and trade was the abolition in January 1989 of the import licensing system after its 26 years of operation. Import license therefore ceased to be a requirement for access to the auction market.

IV. Evaluation of the Adjustment Efforts

The use of exchange rate as a policy instrument to influence changes in the targeted policy variables has been the center-piece of the structural adjustment programme. What is really unique about the foreign exchange rate policy in Ghana is that the rate has been kept under constant review to reflect price and wage developments within Ghana in relation to those developments in Ghana's major trading partners.

Exchange rate adjustment invariably implies increase in the cost of imports and therefore high cost of domestic production and reduction in real incomes if wages lag far behind. Besides, structural adjustment programme calls for price liberalization -- removal of subsidies, price decontrol and imposition of higher utility rates. The combined effects of these changes on costs and prices are bound to set in motion cost -- push inflationary forces in the economy. This has been the common fear of authorities in some countries. It is precisely for the sake of allaying such fears that fiscal and monetary policies must be adjusted in such a way that the adverse or harsh effects of exchange rate adjustment are dampened.

It has been observed that in Ghana the major culprit for the generation of inflation had been the financing of huge budget deficits by the central bank. Since the inception of the ERP the central government has recorded overall budget surplus and has become a net lender of funds to the private sector through the banking system. This spectacular turn around has been achieved per the implementation of a fundamental and vigorous tax reform which was able to mobilize an increased volume of domestic resources. The periodic exchange rate adjustment enabled the tax authorities to capture more tax resources from transactions on international goods and services. Besides, price liberalization and the exchange rate adjustment forced many transactions out of the parallel markets into the official markets.

The far-reaching and sustained structural adjustment reforms adopted under the Economic Recovery Programme since April, 1983, have produced successful results. Almost all sectors of the economy registered considerable success as depicted by the major economic indicators in Table II.

Between 1984 and 1989 real GDP increased by 5.8 per cent per annum in sharp contrast to an annual average negative growth rate of 3.1 per cent during 1979 - 83. The decline in cocoa was reversed from 158,000 tonnes in 1983 / 84 to 300,000 tonnes in 1988 / 89. Cocoa farmers were paid 43.6 per cent of the f.o.b. cocoa receipts in 1989 in contrast to 24 per cent in 1983. (See Table III). The manufacturing sector more than doubled its capacity utilization. The non-cocoa export sector also made steady recovery. Gold output and export of logs and timber products increased by 51 per cent and 374 per cent respectively between 1983 and 1989.

Total export earnings rose by about 89 per cent from US $439 million in 1983 to US $829.8 in 1989. The percentage share of non-traditional exports in total exports shot up to 3.6 per cent in 1989 from 0.4 per cent in 1983. Export permits were abolished. Export duties on minerals and timber products were replaced by domestic extraction taxes, prompt payment of import duty rebate for exporters was introduced and the retention of export earnings of non-traditional exporters was raised from 20 per cent to 35 per cent.

The overvaluation of the cedi which was vigorously attacked by the policy instrument of sustained exchange rate depreciation has been reduced to reasonable magnitude over the period and is still going down. The foreign exchange auction market rate by the end of December, 1989 was US $1,00 = C300 as against the highest forex bureau market selling rate of US $1.00 = C365 indicating a premium of 20 per cent as against 122.2 per cent in September, 1986.

Fiscal performance was also remarkable. Central government total tax revenue as a percentage of GDP moved from 5.4 per cent in 1983 to an annual average of almost 15 per cent since 1986. The share of central government borrowing from the banking system in total money supply was down to -3.9 per cent in contrast to 80.6 per cent in 1983. The quality of the public investment programme has undergone remarkable improvement to ensure efficiency in the use of both domestic and foreign aid resources. The generation of savings provided the authorities the ability to increase every year the remunerations of the civil servants.

TABLE II.GHANA: SELECTED INDICATORS OF ECONOMIC PERFORMANCE

	1983	1984	1985	1986	1987	1988	1989
Real GDP growth	-2.9	7.6	5.1	5.2	4.8	6.2	6.1
Inflation Rate	122.8	39.6	10.4	24.6	39.8	31.4	25.2
Exchange Rate(C'/$)	27.87	35.99	54.37	90.00	162.37	202.34	300.00
Parallel Rate	97.00	100.00	145.00	216.00	175.30	292.29	365.44
Cocoa Exports('000 tons)	148.9	171.8	195.8	198.6	218.9	221.1	202.1
Producer Price(C'000)/tonne	20.0	30.0	56.6	85.5	140.0	174.0	186.0
% f.o.b. Receipts to Farmer	24.0	25.0	24.0	28.0	37.0	40.1	43.6
Gold Production('000 ounces)	281.3	288.0	299.6	292.0	323.5	383.0	421.0
Gov't Revenue & Grants as % of GDP	5.4	8.3	11.8	14.4	14.9	14.6	15.9
Gov't expenditure as % of GDP	8.0	10.0	14.0	14.3	14.3	14.2	15.2
Development expenditure as % of GDP	0.7	1.5	2.1	1.9	2.5	2.8	2.8
Overall Deficit as % of GDP	-2.6	-1.8	-2.2	0.1	0.5	0.4	0.8
Minimum Wage(cedis/day)	25.00	35.00	70.00	90.00	112.50	120.00	170.00
Real Minimum Wage	0.31	0.31	0.57	0.59	0.52	0.43	0.48
% Change in M2	42.0	39.1	62.7	53.7	50.4	43.1	29.4
M2/GDP ratio	12.8	12.3	16.0	16.5	17.1	17.7	17.8
Gov't Borrowing as % of M2	89.6	48.2	50.1	35.1	17.6	6.3	-3.9
Nominal Interest Rate	11.0	14.5	16.5	18.5	21.5	17.0	21.5
Real Interest Rate	-100.7	-22.0	5.6	-5.1	-15.1	-21.1	-20.8
Balance of payments(Million Dollars)							
Current a/c	-157.6	-76.1	-258.3	-85.3	-97.8	-08.6	-118.5
Merchandise Imports	-499.7	-616.0	-725.2	-805.1	-1024.9	-1090.6	-1160.7
Merchandise Exports	439.1	565.9	608.8	749.3	826.8	881.0	829.0
Payments Arrears	-33.7	-207.8	-60.0	-3.6	-71.1	-34.8	-47.7
Debt	2,039.1	1,940.0	2,150.9	2,554.6	2,879.4	3,064.2	2,917.3
Debt Service Ratio	30.1	36.2	54.1	47.8	62.6	68.0	57.0

TABLE III GHANA: TRENDS IN NOMINAL AND REAL COCOA PRODUCER PRICES PRICES, 1972-86

Year	Total Production (Thousands of Metric tons	Producer Price (in cedis per metric tons)	Consumer Price Index 1972 = 100	Real Producer Price Index 1972 = 100
1972	415	366	100.0	100.0
1973	340	436	117.5	101.4
1974	376	560	139.1	110.0
1975	396	597	180.4	90.4
1976	323	747	282.0	72.4
1977	271	1,333	609.8	59.7
1978	265	2,667	1,056.8	69.0
1979	296	4,000	1,630.1	67.0
1980	258	4,000	2,446.7	44.7
1981	224	12,000	5,297.7	61.9
1982	179	12,000	6,478.9	50.6
1983	159	20,000	14,437.3	37.8
1984	174	30,000	20,150.2	40.7
1985	219	56,600	22,242.0	69.5
1986	230	85,500	27,802.5	84.0

Source: Ghana Cocoa Board.

The success of monetary policy is demonstrated, in the main, by the drastic fall in the level and rate of inflation. In spite of the massive depreciation of the cedis from US $1.00 = C2.75 in April, 1983 to C300.00 in December, 1989, the average rate of inflation since 1984 has been around 28.5 per cent which can be described as not very damaging but nonetheless bothersome.

In the case of savings and investment, however, the result was mixed. While the public sector savings rose from -- 0.5 per cent of GDP in 1982 to 6.3 per cent in 1988, the performance of the private sector was 4.2 per cent in 1983 and 6 per cent in 1988. Over the same period public sector investment expanded from 1.5 per cent of GDP to 10 per cent in contrast to a rise from 2 per cent to 4.1 per cent for the formal private sector. Foreign direct investment was not only disturbingly low but did not show any sign of increase. The average annual foreign direct investment was around US $5 million. The inference is that in spite of the healthy macroeconomic environment created, the response of the private sector has been sluggish. Besides, the problem of negative real interest rate remains intractable. With the exception of a positive rate of 5.6 per cent in 1985, real interest rates have been highly negative since the 1970s. These situations have caused the authorities great concern and steps are underway to find the policy instruments appropriate for changing the trend.

The twin problems of unemployment and low per capita income have not lent themselves to quick and easy solutions over the period. The depth of the economic decline before the introduction of the ERP, the return of about one million Ghanaians from Nigeria and the drought and bush fires of 1983, (not to mention the retrenchment measures adopted in the public service and the adverse macroeconomic policy effects of the adjustment programme), have rendered the positive impact of employment generation of the reform policies insignificant on net basis.

Despite the admirable rate of growth of real GDP, per capita income and the periodic wage adjustments, the real minimum wage in 1989 was only 48 per cent of the minimum wage in 1975. The implications of this state of affairs on the standard of living of the vulnerable groups leave much to be desired. The concern and response of the authorities found expression in the formulation of a Programme of Action to Mitigate the Social Cost of Adjustment which was adopted since November, 1987. An amount of $130 million was earmarked for the programme which consisted of the provision of financial and material inputs to peasant farmers for agricultural rehabilitation; credit lines for small scale enterprises; payment of compensation and training scheme for redeployees, creation of new jobs in public works programmes and the provision of basic social amenities to the rural urban poor and women.

V. A FEW LESSONS

The experience of Ghana shows that the rigidities in pricing, exchange rate and interest rates policies must be removed in systematic phases and each phase monitored and analyzed scrupulously to provide guidance for the design of the next phase. The rationale for the phasing strategy is that whereas policies of liberalization can be introduced by fiat, the expected responses cannot be realized through legislation. The time lags, the direction and the intensity of the elasticities cannot be guaranteed.

What is sensible in the context of adjustment programme is not floating exchange rate and market-determined flexible interest rate system but pragmatic rates appropriate to the economic situation. Absolute liberalization may create instability instead.

The fight against inflation must be relentless but not to the point where recession sets in. And so long as inflation remains high it is counter-productive to liberalize absolutely interest rates and domestic prices. In this regard the strategy of Ghana to initiate the process of economic recovery by allowing stabilization to proceed real structural adjustments was wise. Fiscal reforms helped to generate adequate domestic resources to permit the growth process to begin successfully. Though monetary policies constrained the expansion of credit and assisted in reducing inflation yet the structure and composition of commercial bank assets frustrated successful achievement of positive real interest rates. Hence the poor private sector response to the sound macroeconomic environment.

It is one thing formulating a structural adjustment programme which articulates the policy objectives, the policy targets and the policy variables which are to transmit the required impulses. It is another thing designing and implementing the appropriate policy measures and instruments to attain the policy targets. The experience of Ghana identifies the implementation stage as the most difficult if there is (a) lack of sustained political commitment; (b) lack of active involvement of the people, and (c) lack of high level expertise, experience, dedication and "native" common sense on the part of public sector personnel.

VI. CONCLUSIONS

This paper has established that the exercise of direct control policy measures did hamper to a large extent the economic growth and development in Ghana for two decades. It also pointed to the evidence in Ghana since 1983 that progressive reduction of direct controls in favor of market-oriented policy measures have promoted economic growth. In this regard direct controls must be viewed as necessary short-term but not sufficient tools for solving economic problems of structural imbalances. They must therefore not be allowed to take root, otherwise they turn into rigidities and impede the progress of structural adjustment reforms later.

In the long-run of the best ways to get people to pursue economic activities which will enhance the achievement of policy objectives is to make it profitable for them to pursue such economic activities.

Exchange Rate Policies in Africa and the Requirements of Stabilization and Structural Adjustment

by

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In the late 1970s, flexible exchange rate policies were presented as one of the most appropriate means to remedy the lack of dynamism in some African economies. With the second oil shock and the worsening of balance of payments deficits, the IMF and the World Bank have widely recommended in favor of a more active policy in this respect. These institutions have attempted to demonstrate that exchange rate adjustments would have the advantage of making a return to financial equilibrium possible without impeding lasting economic growth. The present article examines to what degree the African authorities have been convinced by devaluationist arguments, and what results the application of this recommendation have produced.

Part One is devoted to a review of various exchange rate determination systems.

Part Two deals with exchange rate policy indicators and their expected impact on the evolution of macroeconomic variables.

Part Three is empirical. It evaluates the intensity of nominal and real depreciations of African currencies and analyzes their impact on price changes, GDP, export and import volume, current account balance and public finance.

1. THE DIVERSITY OF EXCHANGE RATE SYSTEMS

After the collapse of the fixed exchange rate system that controlled the world monetary system between 1945 and 1973, developing countries have adopted various political systems that are reflected in the diversity of exchange rate systems in Africa. According to the most popular characterization, countries where the currency is maintained by a fixed exchange rate but that is adjustable by means of a single standard or a basket of currencies are compared to countries that have opted for a system of free or controlled fluctuation. An intermediary case also merits attention, that of countries that have put into practice a system of multiple exchange rates that generally lead to a de facto or de jure coexistence of fixed and floating exchange rate mechanisms.

1.1. Pegging the Exchange Rate

In an environment where disparate inflation rates have given rise to serious exchange rate variations between principle foreign currencies, a considerable number of African countries have chosen to peg their exchange rates to a basket of currency rather than to one single foreign currency. For convenience, the monetary authorities had first given preference to pegging Special Drawing Rights, then in the 1980s, a growing interest was expressed for pegging exchange rates to a basket of currencies representative of a country's foreign trade structure.

This second system is a priori more satisfactory in that it takes into consideration the particularities of an economy in terms of international exchange. Pegging exchange rates to Special Drawing Rights nevertheless responds to a similar economic logic since that unit of account reflects, by its composition, the world demand structure and consequently, the absorption of primary products exported by developing countries.

At the end of the 1970s, the technique of pegging to a basket was considered desirable and destined for generalized practice. Upon reading Table 1, it nevertheless appears that in 1988 almost two dozen countries continued to maintain a fixed exchange rate determined by one single foreign currency; this is approximately the same number as in 1978. Even more surprising, certain countries have returned to the principle of pegging to a single monetary standard after an experience of pegging to a basket of currency was judged unsatisfactory. The cases of Ethiopia, Uganda, or Zambia can be cited as examples that in this domain, dispositions are not as irreversible as certain authors might once have believed.

Presently, two foreign currencies share the role of the monetary standard for pegging exchange rates, although for very different reasons; they are the U.S. dollar and the French franc. The attraction that the dollar possesses is naturally dependent on the dominant weight of the United States in the functioning of the world economy. It is moreover the principle reason why the power of attraction of American currency has been maintained in spite of unruly fluctuations in American exchange rates that were successively over-appreciated (1980-1985) before depreciating in no less perceptible proportions (1985-1989). Although the dollar standard is no longer as undisputed as was the case before 1971, it remains a privileged instrument of measurement and billing in international exchanges of raw materials.

The stability of the role of the French franc in Africa is indissociable with the area of economic and monetary cooperation that constitutes the "Zone franc" or franc area (Guillaumont, P. and S., 1984). After the independence of its colonies, France has maintained close relations of cooperation with those territories desiring it. The installation of a monetary system with a guarantee of unlimited convertibility of national currency has been the most spectacular element of this cooperation. Whether it be in West Africa or Central Africa, the CFA francs are issued by the Central Bank of the West African States (B.C.E.A.O.) and the Bank of the Central African States (B.E.A.C.) at the fixed exchange rate of 0.02 FCFA for one unit of french francs. At this rate of exchange, unmodified since 1948, thanks to the commitment of the French Treasury to unlimited conversion via the mechanism of transaction accounts, economic agents can execute their international transactions without concerning themselves with the foreign currency holdings of the Central Banks.

The "Zone franc" constitutes a community at the heart of which economic solidarities can manifest themselves at any moment, as well between members of the same monetary union, as, should the occasion arise, between France and its African partners. Consequently, this economic ensemble differs substantially from the former British monetary community, which was a flexible association

Table 1

Formulas for Pegging African Currencies

(1978-1988)

For the countries having adopted a double or multiple exchange rate market, the exchange rate system indicated is the one in operation on the principal market.

Franc français	Dollar US	Livre sterling	DTS	Panier sur mesure	Autres monnaies
		Au 31 décembre 1978			
Bénin	Botswana	Gambie	Ethiopie	Cap Vert	Ghana
Cameroun	Burundi	Seychelles	Guinée	Mauritanie	(livre et dollar)
Centrafrique	Djibouti		Guinée-Bissau		Guinée-
Comores	Libéria		Kenya		équato.
Congo	Nigéria		Malawi		(Peseta esp.)
Côte d'Ivoire	Rwanda		Maurice		Lesotho
Gabon	Somalie		Ouganda		(rand sud-afr.)
Haute Volta	Soudan		Sao Tomé &		Swaziland
Madagascar			Principe		(rand sud-afr.)
Mali			Tanzanie		
Niger			Zaïre		
Sénégal			Zambie		
Tchad					
Togo		Sans rattachement :			
		Sierra Leone			

Franc français	Dollar US	Livre sterling	DTS	Panier sur mesure	Autres monnaies
		Au 30 juin 1988			
Bénin	Djibouti	–	Burundi	Botswana	Lesotho
Burkina-Faso	Ethiopie		Guinée	Cap-Vert	(rand)
Cameroun	Libéria		Guinée-	Kenya	Swaziland
Centrafrique	Ouganda		Bissau	Madagascar	(rand)
Comores	Sierra Leone		Rwanda	Malawi	
Côte d'Ivoire	Soudan		Seychelles	Maurice	
Guinée-	Zambie			Mauritanie	
équatoriale				Mozambique	
Gabon				Somalie	
Mali				Tanzanie	
Niger				Zimbabwe	
Sénégal		Sans rattachement :			
Tchad		Gambie			
Togo		Ghana			
		Nigéria			
		Zaïre			

Source : S. Nana-Sinkam : *Les PCPD dans la jungle du nouveau système international des taux de change*, Paris, Economica, 1979, p. 83 et FMI : *Exchange Arrangements and Exchange Restrictions*, 1988 et *Bulletin du FMI*, 5/9/1988.

Source : JACQUEMOT (P) ASSIDON (E) : Politiques de Change et Ajustement en Afrique (1988) pp 19-20.

without a treaty or structure in which English custom played a determining role, until its progressive disintegration between 1967 and 1975.

In many respects, today's system of exchange rates pegged to the dollar is related to what was the sterling zone. The African monetary authorities in fact possess complete freedom to modify exchange rate standards according to national economic needs. In comparison, within the bounds of the "Zone franc" we see the survival of a fixed exchange rate mechanism. The link between the FCFA and the French franc is actually only adjustable in exceptional circumstances -- unanimity among all the members of a monetary union (U.M.O.A., B.E.A.C.) concerning devaluation and the choice of a new par value. This requirement makes monetary discipline a necessity. Moreover it makes indispensable the financial solidarity that permits a country to deal with transitory imbalances in its balance of payments beyond its available foreign currencies.

1.2. Floating Exchange Rates

Currently few African countries have allowed themselves to be seduced by an experience with floating exchange rates where the external value of the currency is determined by the free confrontation of supply and demand. The brief experiences of Nigeria, Tanzania, and most recently Zaire constitute the rare exceptions. Such a system of exchange rates is undoubtedly disinclined to satisfy small undiversified economies with an external marketing discontinuous with their primary commodities.

The adhesion to a system of "pure flotation" implies accepting a high degree of variation in the national currency market with considerable exchange risks of hindering the development of international transactions. Of course, the monetary authorities can intervene in the currency market to reduce the variability and guide the market towards a middle term equilibrium of balance of payments. They can also create mechanisms of forward cover so that operators can protect themselves against erratic movements of the exchange rate. But these interventions remove one of the principle advantages of a floating exchange rate, the fixation of an equilibrium rate without administrative costs and the expenses of managing a stock of exchange reserves.

1.3. Multiple Exchange Rates

Most often a hybrid solution of the two preceding exchange systems is necessary. In the context of a foreign currency gap, the monetary authorities determine an exchange rate at which the level of imports and exports considered necessary for the functioning of the economy will occur. The profitable completion of transactions at the fixed rate requires that the central bank maintain an adequate stock of reserves. Non essential imports are permitted; but their price in national currency depends on the opportunity cost of the foreign currency determined by the black market, the parallel market (de facto multiple exchange rate) or by the auction market (de jure multiple exchange rate) periodically organized by the Central Bank. (For an analysis of the experiences of Madagascar and Guinea between 1971 and 1983, c.f.: GUILLAUMONT, S., 1985.) The quantity of foreign currencies supplied is then fixed and the demands are satisfied in competition for that supply in descending order of submission price. At the end of 1987, such a system of "administrated bidding" for non priority commercial transactions was functioning in several African countries. This was notably the case in Ghana, Guinea, Nigeria, and Zambia (JACQUEMOT, P. and ASSIDON, E., 1988).

The principle remark that can be formulated concerning this method of exchange rate determination is that in spite of a reduction of the costs of authoritative allocation of foreign currencies (corruption, privileges unduly granted to the parastatal sector...) the bidding system does not eliminate the formation of a black market as long as demand remains unsatisfied for a fixed quantity of foreign currency.

2. THE INDICATORS AND EXPECTED RESULTS OF EXCHANGE RATE POLICIES

2.1. Indicators

In an environment where the principle foreign currencies fluctuate in relationship to one another, the national currency market in relation to one single foreign currency has a very limited economic significance, including economies where a large portion of foreign trade is conducted with the country whose currency is used as a standard for pegging. In such an environment, it is the movement of an index on the effective exchange rate (TEN) that one should consider. The TEN is defined as a weighted average of bilateral exchange rates; the weighting element is most often the import structure of the country for which the index is calculated. In itself, the TEN gives even more limited information on the variations of competitive positions of an economy. In fact, its movement can only reflect inflation differences with the principle trading partners. This is the reason that this index is generally interpreted after having been adjusted for relative price variations. This indicator is called the Real effective exchange rate (TER). The formula is given below.

$$TER^t ij = \frac{TEN^t ij}{PRE^t ij} \times 100$$

$TER(N)^t ij$: Real effective exchange rate (nominal) of country (i) with the country of importation (j).

$PRE^t ij$: Relative price index of country (i) with country (j).

$$TEN^t ij = \prod_{j=1}^{n} \left(\frac{TC^t ij}{TC^1 ij}\right)^{Wij} \times 100$$

$$PRE^t ij = \prod_{j=1}^{n} \left(\frac{PR^t ij}{PR^1 ij}\right)^{Wij} \times 100$$

Wij: Relative importance of country (j) for country i.

TC ij: Bilateral exchange rate of the currency of country (i) in relation to country (j).

PR ij: Bilateral consumer price relationship between (i) and a country (j).

The meaning of the TER differs according to the price index considered. In Table 2, it is the consumer prices that are used. There, the indicator translates first the real variations in purchasing power. But, under certain hypotheses, it equally constitutes an index of the aptitude of an economy to produce internationally exchangeable goods (exportable goods or substitutable to imports). In fact, if the price of these goods is exogenous, that is, fixed by world markets and common in foreign currency to all of the producers, the TER varies essentially by the intermediary of the internal relationship between relative prices of exchangeable and non exchangeable goods. The appreciation of an index signifies that the price system in local currency favors the substitution of domestic goods (PNT) for tradable goods (PT) at the level of production.

This interpretation of the TER, not in terms of relative international prices but in terms of relative internal prices (PT/PNT) is implicit when one is interested in the analysis of real prices for the producer of exportable raw materials. In deflating the price index paid to the producer by an African consumer price index whose movement is largely linked to the price of domestic goods and services, the underlying question is to know if, for a given fiscal claim, the real income of a local producer tends to improve or deteriorate.

2.2. Expected Results

Up until this point in the analysis the TER has been closely associated with the objective of a competitive economy. In that vision, the monetary authorities must be careful to diverge as little as possible from the equilibrium exchange rate on the base of relative prices. For several years the African countries have been confronted by a persistent weakness in their balance of payments. The causes of the imbalance are known (PLANE, 1988). They are a result of both the exterior context and the management of economic policies. By analogy with the notion of "fundamental imbalance" of the balance of payments (of which existence should command), in virtue of the agreements of Bretton Woods, a modification of the parity of a currency, the Washington institutions consider that the exchange rate should be linked not only to price competitiveness but to an objective of a viable exterior payments structure (GUITAN, 1985).

Concretely, the authors of these institutions refer to the current account balance and question the endurable nature of the deficit.

Otherwise stated, a current account with a negative balance cannot lastingly finance itself by a net influx of capital with the financial conditions (price, bidding...) in relationship with the internal productivity of resources that would call for an adjustment of the external value of the currency. This confidence in the effectiveness of the exchange rate as a counterbalancing instrument of exterior accounts rests on optimistic hypotheses as well as the behavior of economic agents. These agents are supposed to favorably respond to price incentives, which implies that in the situation of a national currency depreciation one could expect a rise in the volume of goods exported and a reduction in the demand for imported goods. The internal supply of tradable goods is particularly elastic to price variations. In the situation where the exports of a "small economy" are of only marginal quantities in the satisfaction of world demand, the increase of export volume sales does not imply a decrease in international market rates.

The neo-structuralists oppose this diagnosis with much more pessimistic views. For these economists, the developing economies suffer from excessive specialization in primary products for which world demand is relatively inelastic to price and income variations. The quantities produced would be more influenced by climatic uncertainties than by price. The national import demand would be exposed to a certain price rigidity because of the need to import capital goods without which development would be hindered. As a result of these characteristics, it seems that improvement of the balance of payments can only be envisioned for the long term via a diversification of productive systems.

The impact of an exchange rate depreciation on principle macroeconomic variables appears equally uncertain. The current of neoclassic analysis that impregnates the philosophy of the Bretton Woods institutions counts on short term compensation for the effects of stabilization: - decreasing internal mergers - and structural adjustment - recovery of activity in the tradable goods sector by a return to annual export crops and mobilization of unused industrial production capacity - to preserve if not increase the growth of GDP.

On a more distant temporal horizon, the perspectives of a return to activity seem even better since on the one hand, the real depreciation of the exchange rate allows one to hope for a more efficient allocation of resources, an allocation more consistent with the principle of development on the base of comparative advantages and on the other hand, after a period of increase in production, the perennial crops will enter the phase of optimum yield.

In the matter of inflation and public finance, the impact of a nominal depreciation of the currency is a priori uncertain.

First, concerning inflation, the effect of a mechanical boost in prices of tradable goods could be diminished by a reduction in customs tariffs. Whatever it may be, it is for the economists of the IMF to decide, the accompanying monetary policy will finally determine the intensity of inflationary tensions in the period that follows the depreciation of the exchange rate.

Concerning public finances, there again the impact is difficult to capture in that it varies inevitably with the extent of the stabilization, the inflation level, related changes in the foreign trade policy (conversion of quantitative restrictions in tariffs, lowering of tariff barriers) and of course the burden of the debt service in foreign currency.

The neostructuralists hold to another reasoning. They express their fear that the depreciation of the exchange rate will result in the violent contraction of internal demand with an appreciable drop in the level of local production. (KRUGMAN and TAYLOR, 1978; TAYLOR, 1981). Moreover, they emphasize the argument that a simple monetary manipulation cannot modify the fundamental relationship between price and wages (KALDOR, 1983). The agent banks absence of monetary illusions will have the consequence of exacerbating cost inflationary tensions without entailing a real transfer of income from urban populations towards rural populations, from the worker towards the firm, from the producer of domestic goods towards the producer of tradable goods.

3. THE APPLICATION AND EFFECTIVENESS OF EXCHANGE RATE POLICIES

3.1. Developmental tendencies of effective exchange rates

In the policies of economic and financial recovery that inspire the institutions of Bretton Woods, the elimination of the over-evaluation of currencies occupies a central place. It is therefore normal that in the period considered, having adhered to the programs of the IMF and the World Bank, the African monetary authorities have shown themselves to be receptive to the installation of more active exchange rate policies than before.

For each country, Table 2 identifies the intensity of the efforts produced in the matter through the variations in the annual average growth rate of the effective nominal and real exchange rates. These two rates have been calculated in reference to ten principal non oil import countries according to the formula given above. The weight given to each partner reflects, on average, the relative importance of bilateral trade during the 1980-1986 period.

Upon reading the results, it is evident that in 75% of the countries in the sample, the African currencies tended to depreciate as much in nominal value as in real value. In more than 25% of the cases, the real depreciation was greater than 5% per year. The matter at hand shows radically different behavior than that observed in the 1970s when the refusal to devaluate had the consequence in certain countries of an over-evaluation in which the Berg Report (1981) revealed the extent(p.29). The rallying for a more flexible exchange rate policy has been particularly spectacular in countries where resistance had been very strong up until now. It is thus than on average, the Ghanean Cedi has lost more than 50% of it external value each year between 1980 and 1987. The African leaders have

Table 2: Developmental Tendencies of Nominal and Real Effective Exchange Rates (1980-1987)

(% de Variation annuelle moyonne)

PAYS	NOMINAL	REELLE	PAYS	NOMINAL	REELLE
BENIN	+ 2,3	- 0,1	LIBERIA	+ 5,9	+ 1,0
BOTSWANA	- 4,0	- 4,0	MADAGASCAR	- 16,5	- 7,6
BURKINA	- 1,4	- 2,1	MALAWI	- 3,6	- 0,2
BURUNDI	+ 0,1	+ 0,2	MALI	- 1,2	- 3,2
CAMEROUN	- 0,9	+ 1,3	MAURICE	- 2,0	- 2,9
CAP VERT	+ 2,0	+ 1,6	MAURITANIE	- 3,4	...
CENTRAFRIQUE	+ 1,1	+ 2,9	NIGER	- 1,3	- 4,3
COMORES	+ 1,3	...	NIGERIA	- 14,6	- 10,4
CONGO	+ 4,7	+ 0,7	OUGANDA	- 52,4	- 13,7
COTE-			RWANDA	+ 6,2	+ 4,5
D'IVOIRE	- 1,8	- 2,9	SENEGAL	- 1,0	+ 2,2
ETHIOPIE	+ 2,5	+ 0,9	SEYCHELLES	+ 6,1	...
GABON	- 1,7	- 0,3	SIERRA LEONE	- 37,8	- 1,2
GAMBIE	- 16,5	- 4,6	SOMALIE	- 32,5	- 9,7
GHANA	- 46,7	- 26,2	SOUDAN	- 21,5	...
GUINEE	- 26,5	...	SWAZILAND	- 11,8	- 5,5
GUINEE-			TANZANIE	- 22,7	- 3,6
	- 26,6				
BISSAU		- 6,5	TCHAD	- 1,2	- 2,9
GUINEE-			TOGO	- 2,2	- 3,4
	- 7,2				
EQUATORIALE		...	ZAIRE	- 34,4	- 16,2
KENYA	- 0,1	- 3,5	ZAMBIE	- 25,7	- 14,1
LESOTHO	- 7,5	...	ZIMBABWE	- 7,3	- 2,0

N.B : le signe (+) indique une appréciation du cours nominal ou réel de la monnaie et vice versa pour (-).

Remarks:

The average annual growth rate was calculated by the least squares method. The calculated equation is the following:

$\log TE = a + bt + e$ with $b = \log(1 + r)$ the parameter that one is trying to estimate. If b^* is the estimate of b by the least squares method, then the average rate of annual growth r is obtained by the formula $[\text{antilog}(b^*)] - 1$.

Sources: Based on IFS. International Monetary Fund, 1989 and Data Bank of CERDI (Center for Study and Research on International Development).

demonstrated as much determination in Uganda (-52%), Sierra Leone (-37.8%), Somalia (-32.5%), Zaire (-34.4%). Since in all of these countries the depreciation has led to the putting in place of accompanying monetary measures, these nominal adjustments have stimulated an improvement of economic competitiveness.

A certain prudence imposes itself all the same in the commentary concerning the empirical relationship between the development of nominal exchange rates and the rhythm of inflation. The depreciation of the external value of African currencies remains a relatively recent experience, the middle of the 1980s. Taking into account a propagation effect of interior prices that rise in stages over several years, it is not out of the question that the impact of these depreciations on the inflation rate were only partly captured at the time they were studied.

Another interesting note to establish is that 8 of the 12 members of the franc area have seen their real effective exchange rates tend to depreciate, sometimes in sizable proportions : -3% on average per year for the Ivory Coast, Chad, Togo, Mali, and -4.3% for Niger. In the absence of a modification of the par value in relation to the French franc, this development has been produced by a reinforcement of monetary rigor (endogenous factor to the policy) and an autonomous weakening of French currency compared to the foreign currencies of importing countries of the area (exogenous factor to the policy).

3.2. A Contrasted Effectiveness

In its relationship with principle macroeconomic variables, exchange rate policy has had a mitigated effectiveness that has not definitively settled the "old debate" between the optimism of the neoclassicists and the pessimism of the neostructuralists.

Tables 3 and 4 suggest that imports have appreciably diminished in volume in the countries where the real and nominal depreciations have been the most accentuated. On average, the current account balances have nevertheless begun a clear return to equilibrium. In terms of GDP, the deficits have been reduced by around 6 to 7%. In these developments the "price effect" has not been the only factor at work. In spite of the phase of liberalization of exchanges at the end of the period, the import quotas and other quantitative restrictions have often been reinforced over the entire period, in connection with the exhaustion of net exterior capital inflows (outside of debt consolidation operations). The internal demand structure has also played a role in a decrease of imports through the revised decrease in foreign capital investment goods.

On the side of exports, it is clear that their volume has not progressed as much as had been hoped for. Against all expectations, and at a statistically significant 95 % level of confidence when one

Table 3: Development of Macroeconomic Variables in Connection with the Intensity of the Nominal or Real Exchange Rate Depreciation (1980-1987)

	Nb d'obser-vations	Moyenne Simple	Ecart Type	Médiane
Pays à faible dépréciation nominale (PFAN)				
(1) Croissance annuelle du PIB	19	2,5	2,4	2,4
(2) Croissance annuelle des prix	18	5,6	2,6	4,9
(3) Croissance annuelle des importations	17	0,7	4,7	2,0
(4) Croissance annuelle des exportations	17	3,3	5,1	3,4
(5) Variation de solde des Finances publiques	18	- 0,1	4,2	0
(6) Variation de solde du Compte courant	15	- 6,6	9,0	- 5
Pays à forte dépréciation nominale (PFON)				
(1) Croissance annuelle du PIB	19	2,1	2,6	1,9
(2) Croissance annuelle des prix	15	30,2	23,9	24,9
(3) Croissance annuelle des importations	13	- 5,0	5,3	- 3,0
(4) Croissance annuelle des exportations	13	- 1,8	3,8	- 2,1
(5) Variation de solde des Finances publiques	19	1,2	7,7	- 0,7
(6) Variation de solde du Compte courant	15	- 7,4	5,7	- 7,7
Pays à faible dépréciation réelle (PFAR)				
(1) Croissance annuelle du PIB	17	2,9	2,2	2,7
(2) Croissance annuelle des prix	17	8,9	11,1	7,5
(3) Croissance annuelle des importations	16	- 0,6	6,3	1,2
(4) Croissance annuelle des exportations	16	3,0	4,2	3,0
(5) Variation de solde des Finances publiques	18	- 0,7	4,3	- 1,0
(6) Variation de solde du Compte courant	14	- 7,8	9,0	- 6,5
Pays à forte dépréciation réelle (PFOR)				
(1) Croissance annuelle du PIB	16	2,0	3,0	1,7
(2) Croissance annuelle des prix	13	26,8	26,4	17,4
(3) Croissance annuelle des importations	12	- 3,0	4,6	- 2,9
(4) Croissance annuelle des exportations	12	- 2,5	4,0	- 3,2
(5) Variation de solde des Finances publiques	16	0,1	7,1	0
(6) Variation de solde du Compte courant	13	- 8,2	6,1	- 5,5

Remarks and Sources:

Calculations established on the basis of:

(1) In volume to 1970 prices, in average annual % during the period 1980-1987 ; Data bank CERDI and World Tables, World Bank, 1989.

(2) Consumer price, in average annual % during the period 1980-1987 ; World Bank, World Development Report, 1989, table 1.

(3) and (4) Exports (FOB) and Imports (CAF) of merchandise in volume, in average annual % for the period 1980-1987; World Bank, World Development Report, 1989 table 10.

(5) Absolute variation of the average of public finance deficit reports (including the grants) to GDP between 1985-1987 and 1980-1982.

World Bank and United Nations : African Economic and Financial Data, 1989.

(6) Variation of average current account deficits expressed in terms of average GDP between 1985-86 and 1980-82.

World Bank and United Nations : African Economic and Financial Data, 1989.

Table 4: Statistical Comparison of Macroeconomic Variables as a Function of the Degree of Nominal or Real Depreciation of Effective Exchange Rates

The Wilcoxon Test

DEPRECIATION NOMINALE	NOMBRE D'OBSERVATION	W	T	DEPRECIATION REELLE	NOMBRE D'OBSERVATION	W	T
Variables considérées	PFAN/PFON			Variables considérées	PFAR/PFOR		
Croissance économique	(19)/(19)	392	0,62	Croissance économique	(17)/(16)	315	-0,93
Croissance des prix	(18)/(15)	173*	-4,81*	Croissance des prix	(17)/(13)	203*	-2,53*
Croissance des importations	(17)/(13)	328*	2,70*	Croissance des importations	(16)/(12)	148	(...)
Croissance des exportations	(17)/(13)	327*	2,66*	Croissance des exportations	(16)/(12)	104,5*	(...)
Variation du solde des finances publ.	(18)/(19)	349	0,21	Variation du solde des finances publ.	(16)/(16)	280	-0,15
Variation de solde du Compte courant	(15)/(15)	250	0,73	Variation de solde du compte courant	(14)/(13)	192	(...)

Remarks:

The Wilcoxon test allows one to test whether the distributions if taken two by two are identical or if one is larger (or smaller) than the other. The asterisk (*) designates a significant difference at a 95% level of confidence. The value of W is only important in the case that the sum of the observations furnished by the two distributions remains below 30.

applies the Wilcoxon test (Table 4) at two distributions, the exports have even had the tendency to diminish in the most considerable proportions in the countries where the real exchange rate depreciation had been the largest. These results imply a verification of neostructuralist views according to which, the climatic conditions, the structural rigidities of the supply of agricultural production, the foreign currency rationing that limits access to inputs or imported consumer goods, raising the agricultural producer's motivation to increase his monetary income, the specialization in primary products for which world demand augments slowly, are all so many potential obstacles in the observation of a response of productive systems to real exchange rate adjustments.

This article will not seek to identify what the contribution of each of these factors has been to the development of exports. In compensation, two other explanations will be put forward that, beyond this empirical analysis invite one to not underestimate the scope of neoclassical theory. In the circumstances, it is probable that before modifying their behavior (growth of production capacities but also substitution of tradable goods for goods produced for purely domestic use), the agents have preferred to test the lasting character of the new relative internal price structure ; it is incidentally one of the explications given for the fact that supply elasticities are generally higher in the long term than in the short term. Finally and most of all, the experience of exchange rate policies is to be replaced in the world economic context of the 1980s.

Throughout the decade, most of the developing economies have been under adjustment. The standardization of devaluationist policies has certainly permitted the augmentation of the volume of world exports of primary products. As a result of an international demand for these products that is relatively inelastic to variations of price and income, the augmentation runoff volume has resulted in an appreciable decrease in trade prices. To characterize this situation, the expressions "synthetic error" or "fallacy of composition" have been frequently used to signify that a price adjustment that could be effective in a "small country" generates perverse effects when a multitude of producer countries adopt the same therapeutic.

In this context of deflation that is reminiscent, in some ways of the unhappy experience of the "concurrent devaluations" of the 1930s, one can ask oneself if in spite of the active exchange rate policies that have been treated, Africa has retained a certain weakness of its competitive position with Asian and South American countries. In other words, have the real exchange rate depreciations been sufficient to assure the best conditions for the production of tradable goods ? Have they favored an amelioration of the real income of agricultural producers, taking into account the fall of world markets, of the maintenance of internal inflationary tensions and the fiscal requirements that don't always permit the relaxation of crop tax rates ?

Table 5 permits the evaluation of the more or less stimulating character of internal agricultural price policies through the development of official purchasing price expressed in real terms. Each time

Table 5: Developmental Tendencies of Real Producer Prices

(Annual Average Growth Rate for the Principal Products)

Period of 1960-1987

	COTON	SORGHO	MAIS	ARA-CHIDES	CAFE	CACAO	THE	RIZ
BENIN (1)	2,1**							
BOTSWANA		5,6*	5,3°					
BURKINA	4,8	-4,3	-3,8					
BURUNDI					-2,2		3,0	
CAMEROUN	-0,4				-3,0	-2,9		
CENTRAFRIQUE	-0,9				-3,4			
CONGO			-1,0*		3,0*	-3,0*		
COTE D'IVOIRE			-1,1		0	0		0,4
ETHIOPIE		-3,3*	-1,0*		5,4*			
GAMBIE	0,8*			2,8				
GHANA						14,8		
GUINEE-BISSAU				-4,2				-3,2
KENYA			0,8				-4,2	
LIBERIA					-4,9	-6,7		-5,1
MADAGASCAR					-1,4*			
MALAWI	2,6	5,6	-2,5	1,2				
MALI	2,4	2,9*	2,2*					6,4*
MAURITANIE		0*	-3,5*					1,1*
NIGER				12,0				
NIGERIA	-1,2*	-2,5*	-2,7*	2,8*		-2,2*		2,5*
RWANDA							-5,7**	
SENEGAL	-1,7	-2,3	-0,3	-0,1				
SIERRA LEONE					3,5	-0,4*		
SOMALIE		8,4*	12,4*					
SOUDAN	-1,9*			-3,7*				
TANZANIE	1,1	0,9	4,3		-1,0		1,9	3,1
TCHAD	7,9*							
TOGO	5,4**			..	6,9**	2,4**		
ZAMBIE	1,5		5,4					
ZIMBABWE	-2,8		-4,0					

Remarks:

The real price paid to the producer is the ratio of the official purchasing price and the consumer price.

* 1980-1986

** 1980-1985

(1) the GDP deflator is used instead of the consumer price index.

Source: based on World Bank and United Nations; African Economic and Financial Data (1989) op. cit. - FMI, IFS (1989).

that the statistical data authorizes it, the tendencies have been established for eight principal Subsaharan products for the period 1980-1987. The results that one arrives at suggest a moderated judgement for the policies followed. Of the 77 tendencies calculated 37 are positive, 37 are negative, and three are equal to zero. Otherwise stated, even if it is fitting to surround the commentary with some precautions facing average annual growth rates of which development is only rarely statistically significant (Student's t non significant to 5%), on first reading, it seems that the policy of real prices to producers has been relatively neutral, that the incentives to produce more have been therefore more limited than desired.

The international environment is marked by a quasi general lowering of primary product export prices. This result nevertheless has an encouraging character and shows a certain willingness to support real price policies. The question that poses itself at this point is naturally to know whether stronger incentives would have been possible with more pronounced exchange rate movements, having understood that in the view of producer countries, a collective augmentation of African exports would have undoubtedly had the consequence of even further degrading the equilibrium conditions between the world supply and demand for products.

In spite of the decrease in import volume and the relatively deceiving development of African exports, on average, the countries in the sample have maintained, in the overall period, a positive GDP growth rate in the order of 2 to 3% per year. This rate represents a shrinkage of around a half point compared to rates recorded in the 1970s, witness to the possibility of a significant external financial recovery without such a brutal and lasting contraction that the neostructuralists might lead one to think. But it also bears witness to the inadequacy of such a rate as a "cruising rhythm" in that it does not permit the realization of the minimal objective of per capita maintenance of domestic product.

CONCLUSION

In an international environment of flotation more or less administered by the principal foreign currencies, a fair number of African countries have continued to peg their currency to a single monetary standard (French franc, dollar). It doesn't seem that this choice of exchange rate system has been an obstacle to a realistic exchange rate policy, including the member countries of the franc area where the fixed par value in relationship to the franc has not been modified since 1948.

In 75% of African countries, the currency has depreciated during the period studied (1980-1987) as much in real value as nominal. As a result of accompanying monetary policies, inflation has often only partially eroded the gains in competitiveness inherent to devaluations. The real exchange rate depreciations have contributed to a significant improvement of current accounts. This appreciable amelioration has been principally attributable to the development in import volume however for the numerous reasons evoked in the article, the exports have only weakly responded to the variations of relative interior prices. In other terms, in spite of the lasting absence of a contraction of production, the effect of exchange rate stabilization seems to have surpassed the effect of structural adjustment ; this being understood as a process of stabilization of external accounts operating in the growth of GDP.

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Is Price Policy Still Important?
Structural Adjustment and the Reform of Agricultural Price Policy

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Summary

In this paper, the role of agricultural price policy is placed in its broader political and economic context, with regard to both international and domestic phenomena. In the past, agricultural price policy has been managed with little regard to producer incentives; its reform therefore is frequently included in the package of policy conditionality imposed during structural adjustment programming. It is argued, however, that while the reform of agricultural price policy is an important short-term adjustment requirement, it is an insufficient condition for the promotion of agricultural sector growth over the longer run.

The Need for Structural and Sectoral Adjustment

African economies are by and large driven by small-scale industry, subsistence agriculture, agricultural exports, and mineral extraction. All four existed in some form prior to the colonial era; the latter two activities were intensified substantially under colonial rule. Resource extraction drove the development of the colonies, with sectoral and macroeconomic policies instituted to facilitate that goal. The production of agricultural export commodities was usually taxed by government-run marketing boards, with the revenues reallocated for domestic infrastructural and industrial development as well as for repatriation to European hands. In some regions, exchange rates were tied directly to European currencies. Investment codes were instituted which permitted easy access by colonists to local resources.

Today, thirty years after most countries in sub-Saharan Africa achieved independence from Europe, these same four activities still occupy most African economies, with public administration now a dominant sector as well. However, the primary goal is no longer resource extraction to provide raw materials to the industrializing European continent. Instead, African development is focused on the satisfaction of rising domestic demand -- either via increased export receipts to pay for a rising import bill or increased domestic production -- for agricultural products to feed a population growing faster than its own agricultural sector, and for industrial and luxury consumer goods.

However, somewhere along the way, for a variety of international and domestic political economic reasons, many African economies fell into severe economic disequilibria (not unlike experiences of other economies around the world, of industrial, industrializing, and agricultural nations).

The end of the era of cheap energy was heralded by petroleum exporting countries in the early 1970s. By the late 1970s, petrodollars were being recycled by the international commercial financial community into industrializing Third World countries, creating a string of debt leveraged by the promise of continuing explosive international commodity prices. Commodity markets crashed and interest rates spiraled in the 1980s, leaving heavily indebted countries without the wherewithal to sustain their debt burdens, yet facing ever mounting interest charges on their commercial debt.

On the domestic front, governing parties in many countries had maintained and/or erected anew elaborate, publically owned organizations for the production, marketing, processing, transport, and trade of agricultural commodities. Industrial investments were financed largely by the public sector. Pricing of goods purchased by parastatal marketing boards was dictated by the state for the specific goal of encouraging a stable domestic food supply. The prices of tradable inputs (fertilizer, seed, machinery) and factors of production (credit, labor) were often subsidized in order to encourage their adoption, a policy which proved costly over the longer run. State monopolies over commodity trade were set up so that the public sector could stabilize expenditure and revenue flows. This goal proved ambitious given management constraints which exist in many African countries.

Mismanagement of such policies frequently served to decrease incentives to individual producers to supply the formal economy. The result was either a retreat of the peasantry into traditional production and marketing sectors or redirection of production and marketing efforts to cross-border opportunities.

In addition, exchange rates were frequently maintained at levels above parity. This encouraged the importation of all commodities by making them artificially cheap to local consumers, including those which competed with domestic production. It also discouraged the exportation of local products by making them seem more expensive in foreign currency terms. As labor was drawn into urban service sectors which developed under such conditions, wage rates rose in the rural areas, thus further penalizing the agricultural sector (for the case of Nigeria, see Oyejide, 1986).

The combined result of mismanaged sectoral and macroeconomic policy led to the stagnation or even falling off of gross domestic product in Africa, especially when measured in per capita terms. This led to mounting current and capital account disequilibria, as trade balances bent increasingly in favor of imports and capital inflows were required to offset them.

An increasingly short-term planning horizon is adopted by individuals as the risks of political upheaval and thus economic turmoil mount. Such a short- term view means that individuals prefer to allocate their resources to consumption, rather than to longer-term goals such as savings and investment. In the agricultural sector, this results in a decline in allocations for research and extension, and for the maintenance of processing and transport infrastructure. It also leads to more rapid exploitation or actual degradation of natural resources such as topsoil and fresh water supplies. These effects further add to output declines over the longer term.

The Design of Structural Adjustment

The international donor community, including inter alia the World Bank and the International Monetary Fund in conjunction with a host of national governments, was mobilized to try to address these problems. New financial resources have been made available to struggling Third World countries on more concessional terms than those which had previously been offered by the international commercial community, including lower interest rates and longer repayment schedules. Yet these new resources come with their own cost in the form of policy conditionalities designed to reinstitute economic equilibria.

Typically, structural adjustment programs are instituted when the weight of domestic economic disequilibria requires a country to demand additional short-term financial resources from the International Monetary Fund. This sends a signal to the international community that a particular country's international financial obligations (servicing of its debt, maintaining trade balances) can no longer be met. Short-term resources for financial stabilization are traditionally provided by IMF

Stand-by Arrangements. Resources to assist in the longer-term restructuring of an economy are traditionally provided by the World Bank, usually as the coordinating agency (and primary financier) of a consortium of multilateral and bilateral donors.

The experience of World Bank lending in most countries is to institute structural adjustment programs first. These focus on macroeconomic imbalances, i.e. exchange rate, trade, and investment policies, to encourage a switch to a more outward focused economy. Typical structural adjustment programs include calls for exchange rate devaluation, elimination of quantitative trade restrictions in favor of tarification, a narrowing of the spread of tariff rates, streamlining of investment codes, the institution of a real interest rate policy for credit allocation, and reduction of the burden of non-performing parastatals.

Sectoral adjustment programs are likely to be addressed in a second round of adjustment lending. These may address problems of output pricing; product marketing; input supply; import/export management; research and extension; land use; public investments for production, processing, and trade; etc.

In fact, a recent World Bank study on the political economy of agricultural pricing policy in sixteen developing countries concludes that what the authors call "indirect intervention," i.e. exchange rate, trade, and investment policy, has a greater effect on incentives to producers in the agricultural sector than does the gamut of sectoral pricing and investment policies (Krueger, Schiff, and Valdés, 1988). Exchange rates, protection to industry, and other policies that are not aimed at agricultural exports intensify the negative protection of agriculture on the order of two to three times as great as the direct negative protection of the sector. Thus, the study concludes that macroeconomic reform is a necessary condition for sectoral growth.

The pattern of structual before sectoral adjustment is by no means followed in all cases. A country's economic problems may be of a more sectoral rather than macroeconomic nature, necessitating sectoral adjustment loans in industry, agriculture, education, etc. Or, it may be easier politically to begin to unravel a country's problems by focusing on sectoral issues, which are managed by what are usually known as the "technical" ministries, rather than to challenge the status quo of macroeconomic management, which is handled in the usually more powerful central ministries of Finance, Trade, and Planning.

On the other hand, in some countries the dominance of one particular commodity in the country's trade profile may justify earlier attention of sectoral policies as part of its structural adjustment program. Burundi, with over three-quarters of its export revenues derived from the sale of coffee, is clearly one such example. Another obvious case in Africa is that of Ghana and the management of its cocoa exports (Salinger 1988, 1986).

Agricultural Sectoral Adjustment Policies

As mentioned earlier, sectoral adjustment programs are likely to address problems of commodity pricing; product marketing; input supply; research and extension; land use; public investments for production, processing, and trade; etc. Our focus here is on agricultural commodity pricing policy adjustment, although we will touch on a number of the other above-mentioned issues as well.

The need to reform agricultural pricing policy presumes that domestic prices are administratively set at levels which are seriously out of line with those which exist on the international commodity market. In most developing countries, domestic agricultural product prices are usually set below international parity prices, i.e. domestic producers are taxed relative to international references. In most industrialized countries, domestic agricultural product prices are frequently set above international parity, i.e. domestic producers are subsidized relative to international references.[1]

Whether a country taxes or subsidizes its agricultural sector usually depends on a host of factors, ranging from the diversity of a country's resource base, and thus the availability of alternatives for generating tax revenues, to the relative political importance of agricultural producers. Both policy paths result in economic disequilibria which are usually not sustainable over the long run.

Admittedly, the burden of adjustment fell first to the developing countries, whose taxation policies are being redressed as part of the policy conditionality package included in structural adjustment programs. Nonetheless, the industrial countries are finding themselves increasingly obliged to address the issues of agricultural sector subsidization by virtue of their mounting domestic budget problems. However, whereas the developing countries have had their adjustment programs more or less imposed upon them by the international financial community, the industrial countries to date have enjoyed the luxury of protracted international negotiations as part of the Uruguay Round of the General Agreement on Trade and Tariffs (GATT).[2]

The goal of agricultural pricing policy reform in developing countries is to raise domestic prices to bring them more in line with those on the international commodity market.[3] The model which underlies this reform recommendation is one which holds that traditional agricultural producers are responsive to price incentives. First proposed as a radical notion in the 1960s (Schultz, 1968), this phenomenon has been observed repeatedly around the globe in careful empirically-based studies (Askari and Cummings, 1976). Thus, an increase in the price paid to producers of a given commodity, it is held, will result in an increase in output of that commodity.

In the case of an export commodity such as coffee, an improvement in the price incentive to producers should ultimately lead to increased coffee exports. Since Burundi occupies such a small share of the world coffee market and therefore cannot influence the international price by its own actions, such an increase in the volume exported will mean an increase in export revenues overall, thus improving the current account imbalance. However, in the case of an increase in the cocoa producer price in Ghana, for example, when exports double in less than five years as producers return to harvesting their beans, pay better attention to their processing, and cease to divert domestic production onto the Ivoirian market, the international cocoa price may be driven down as Ghana is a major player in the market.

An increase in the price of a domestically produced commodity which is also imported in some quantity should also lead to an increase in domestic production, all other things being equal, which will reduce the quantity which needs to be imported. Again, this will improve the current account imbalance. In Morocco, for example, domestic production of the four primary cereals (bread wheat, durum wheat, barley, and maize) in the early 1980s accounted for about 50 percent of total need. Large quantities of bread wheat (75% of total domestic consumption) and maize (30% of total domestic consumption) were imported to satisfy human and animal demand.[4] Yet producer prices were consistently 10-25% below international parity prices. After several years of agricultural sector adjustment, which have brought increases in domestic producer prices along with a host of other sector policy reforms, and improved weather conditions, Moroccan cereal production has risen dramatically and thus the country enjoys reduced wheat import requirements.[5]

The Empirical Measurement of Domestic Prices Relative to International References

A detailed discussion of the tools used in the measurement of domestic agricultural prices relative to international parities is beyond the scope of this paper. The reader is referred to a number of other sources (Tsakok, forthcoming; Timmer, Falcon, and Pearson, 1983; and Pearson, Stryker, and Humphreys, 1981). However, a quick review of 1) the indicators used to measure the degree of disparity between domestic and international prices and 2) the models used to assess the effect of changes in the degree of such disparity on agricultural output, the balance of trade, and the government budget is necessary so that the assumptions which are usually applied in designing agricultural price policy reform can be better understood.

<u>Measures of Price Disparity</u>

Economists compare domestic prices paid to producers with the equivalent of "border prices," i.e. prices on the international commodity market. These must be adjusted for international and domestic transport and processing costs and border charges and then converted into local currency to be comparable to the price paid to the domestic producer at farmgate, at the official purchase point, or in the urban wholesale market, as appropriate. In the case of serious over-or under-valuation of the domestic currency, the international price should be converted at a rate of exchange which accounts for the true opportunity cost of foreign exchange.

The ratio of the domestic price to its international parity is known as a nominal protection coefficient (NPC). An NPC which is greater than 1.00 indicates that the producer is subsidized relative to the international market, i.e. the price he or she receives is greater than the parity price. An NPC which is less than 1.00 indicates that the producer is taxed relative to the international market.

However, countries are frequently active not only in fixing the prices of outputs but also the prices of tradable inputs (such as fertilizer, seed, machinery, diesel fuel, etc.), and even factors of production (credit, labor) and natural resources (irrigation water). Input and factor prices may also be taxed or subsidized. Arguably, what matters to a farmer is not only the degree of subsidization or taxation on the output price but rather the degree of distortion on the combination of output and input prices. Here, economists refer either to value-added, which is the difference between the output price and the value of tradable inputs, or to profit, the difference between the output price and the value of all inputs and factors used in production. The ratio of value-added measured in domestic ("financial") prices to value-added measured in non-distorted ("economic") prices is known as the effective protection coefficient (EPC), while the ratio of financial to economic profit is known as the effective subsidy coefficient (ESC). Similar to the NPC, interpretation of the EPC and the ESC focus on whether the coefficient is greater or less than 1.00. When they are greater than 1.00, the combination of output and input pricing policies implies subsidization of the producer, while coefficients less than 1.00 indicate taxation.

Discussions at the Uruguay Round negotiations at GATT have adopted the use of measures which are similar to ESCs, though they are known in GATT parlance as producer subsidy equivalents (PSE). While earlier discussions argued for the inclusion of a much broader range of sectoral subsidies, such as state investments for research and extension, roads, markets, etc., in the PSE calculation, the difficulty in attributing these expenditures to particular commodities was one factor which contributed to their removal from the agreed- upon definition of the measure.[6]

Measure of Comparative Advantage

A companion measure which economists frequently employ in their discussions of price protection is the domestic resource cost coefficient, used to measure the degree of comparative advantage which a country may or may not have in the production of a particular good. This notion derives from neoclassical trade theory which argues that each country will have a relative comparative advantage in the production of some commodity which can then be traded on the international market. This is said to occur when the economic value of the domestic resources (land, labor, capital) used to produce a unit of that commodity is less than the economic value-added either saved by not having to import the commodity or generated by being able to export the commodity. Thus, if the ratio of the total value of land, labor, and capital, measured in economic (i.e. non-distorted) prices to the international reference price minus the economic value of tradable inputs used in the production of the commodity is less than 1.00, a country is said to have a comparative advantage in the production of that commodity. In other words, an economically efficient savings of foreign exchange resources would be made if the commodity were produced domestically rather than imported in the case of a good which substitutes for imports. Similarly, foreign exchange resources could be efficiently generated by exporting the commodity.

Adjustment Impact Assessment

Designers of agricultural pricing policy reform programs are interested in knowing the relative values of NPCs, EPCs, and DRCs in order to determine whether the patterns of protection in force in a country advance or thwart the comparative advantage it enjoys. Resources are being used inefficiently either when the production of a commodity in which a country does not have a comparative advantage is encouraged by positive protection (i.e. subsidization) policies or when the production of a commodity in which a country does have a comparative advantage is being discouraged by taxation. In such cases, structural adjustment policy conditionality will usually include correction of these pricing policies.

Some countries subsidize the production of commodities in which they do have a comparative advantage in order to effect revenue transfers for political reasons (desire to improve standard of living of a particular social stratum or encourage the development of a particular region, for example). In these cases, further analysis of government budget resources is required as part of the design of the structural adjustment program in order to determine whether the country can afford the policy. This review is similar to the process which is currently ongoing in many industrialized countries which subsidize their agricultural sectors. The final decision in favor or against continuation of the policy is usually made on political, not economic grounds.

Protection and comparative advantage coefficients provide static measures of degrees of disparity and comparative advantage at a given point in time. They do not say anything about what will happen to the economy in the event of adjustment. Thus, in addition, it is helpful for planners to have a tool which can tell them what will happen to production, consumption, trade balances, and government expenditures (typical targets of adjustment policy) when levels of taxation and/or subsidization in the agricultural sector are altered.

Multi-market models combine production and consumption functions with macroeconomic identities to provide such information.[7] Their specification, however, requires economic behavioral information such as output-price and demand-price elasticities (the degree of sensitivity of production and consumption with respect to changes in price), which are difficult to estimate reliably in Africa, where reliable time-series data on production and actual price trends is frequently lacking.

Nonetheless, simulations can be run using elasticity assumptions which at least will suggest orders of magnitude in the effect of price changes on adjustment targets.

Problems in the Design of Agricultural Price Policy Reform

There are several problems inherent in the design of agricultural price policy reform programs. One broad area of difficulty relates to problems of definition of the international reference price. Another problem stems from the basic assumption of the working model and its generalization across the sector, i.e. the assumption that since producers of one commodity will increase output in response to an increase in price, producers of all agricultural commodities will increase sector output in response to price increases. In addition, there is the inherent limitation in relying solely on price policy to spur sector growth without paying attention to sector infrastructure development. Finally, the design of agricultural price policy reform all too frequently takes into account neither domestic political constraints nor regional political economic factors which affect agricultural sector growth.

<u>Measurement Difficulties</u>

In measuring the degree of disparity between domestic prices and their international parities, several issues arise concerning the definition of the international reference price.

<u>Choice of reference market</u>. The choice of which international price to reference can be problematic, depending on the commodity. Theoretically, there exists one integrated market for a given commodity. the FOB/CIF price (depending on whether the country in question exports or imports the given commodity) from which should be used as a reference. In reality, however, international commodity markets are much more complicated.

In the case of wheat, for example, there are many nations which are involved in its export. While normally such a proliferation of exporters should define a free market clearing price, in reality there exist a number of bilateral arrangements which allow importers to take advantage of export subsidies from the U.S. and Europe. It is frequently argued that this subsidized export price represents the opportunity cost to importing countries of the commodity -- the reference against which should be measured their own costs of production. Yet others argue that domestic producers in the importing country should not be forced out of business by virtue of having to compete with subsidized producers. These critics argue that it is the non-subsidized export price, i.e. the "pre-dumping" price, which should be taken as a reference against which to compare domestic costs of production.

Sugar is another commodity whose international market structure defies the competitive market model. Rather than one integrated market, it consists largely of many bilateral arrangements between producers and importers. The international "free market" price is actually the clearing price of a residual market, therefore, which makes it much more vulnerable to large swings up and down. Thus, many analysts argue that the reference should not be to some international market price but rather to the costs of production in an efficient, non-subsidized exporting country.

Processing and marketing costs. The sugar market is further complicated by the fact that what is traded internationally is a semi-processed commodity, raw sugar. Thus when analyzing whether a country's sugar beet or sugar cane industry is competitive internationally, processing costs must enter the determination of the reference price. However, there is no standard approach to this calculation. To deduct the costs of the domestic processing sector (possibly inefficient) from the international raw sugar price in order to derive an equivalent international price for beet or cane may burden the domestic agricultural sector. If an analysis of the agricultural activity alone, and not the integrated agro-industrial activity, is desired, it would be more correct to deduct the processing costs of one the more efficient producing countries from their cost of production in order to derive the beet or cane border price equivalent. Yet these are difficult to ascertain.

Similarly, domestic port and marketing costs may be inflated compared to efficient standards, begging a similar question of how to derive a farmgate price equivalent to the border price.

International price instability. Reference to the international commodity market is further complicated by the fact that international commodity prices are not stable. Such a practice is more efficient from an economic standpoint than simply basing domestic prices on domestic costs of production. All too often domestic prices set in this way are fixed in nominal terms over several years, allowing price inflation to erode their real value and thereby penalizing producers who face rising input and factor costs.

However, the question arises as to over which time frame the international price should be referenced. Instability of international commodity prices is a well-known phenomenon. Real coffee prices, for example, varied 20% from 1980 to 1989.[8] Domestic planners understandably seek methods for blocking the transmission of such price instability to domestic markets. Alternative methods include last year's price, a short-run projected price in the event that a futures market exists, a more medium-run projected price such as those published by the World Bank's International Commodity Markets division, or a moving average of some combination of the above.

In Morocco, for example, cereals and oilseeds reference prices are now set as a function of the last five years' international prices quoted at a given commodity market. If international price movements are randomly variable, such a method ensures a "smoothing out" in the calculation and minimizes the transmission of international price instability on to the domestic market. However, if international price movements tend up or down, a back-weighted moving average implies that the domestic price will always be "behind" the trend, i.e. always taxing or subsidizing domestic producers vis-à-vis the international market, depending on whether the trend is up or down.

While the specific method for referencing the international price still poses some concern, it is generally held that what is important in a first round of reform is for a country's agricultural price policy to be outward focused.

Commodity versus Sectoral Impact of Price Policy Reform

A broader issue relating to the reform of agricultural price policy is whether the improvement of domestic price incentives to producers is a sufficient condition for sectoral growth. Binswanger argues that while producers of individual commodities may be sensitive to price, 1) such elasticities are small, and 2) the same does not necessarily apply to the sector as a whole (Binswanger, 1989). In addition, Cleaver argues that since official prices (of subsistence food commodities) rarely affect an important portion of the total market, price policy is relatively unimportant (Cleaver, 1988).

In the short run, domestic resources (land, labor, and capital) can be reallocated among activities to those which offer the greatest financial return. However, these resources, which comprise some 75-80% of the total production function, especially in traditional agriculture, are in fixed supply in the short- to medium-term, and are therefore merely reallocated among agricultural activities. Thus, output from the sector as a whole cannot be expected to expand. For this to occur, either the availability of production resources must be expanded or technological change must be introduced. And while examples from Asia suggest that implementation of one or both of these strategies will induce agricultural growth, both are longer term propositions, requiring investments in research, extension, input subsidization, transport and market infrastructure, etc.

Importance of Sectoral Infrastructure Development

We are now beginning to understand some of the limitations of focusing too narrowly on the reform of agricultural price policy as the sole palliative for promoting sector growth. Clearly, such a strategy is a necessary but insufficient condition for rekindling sectoral output (Mellor, Delgado, and Blackie, 1987).

The World Bank is beginning to acknowledge that the returns to policy reform are limited in nature and is swinging back once again to the financing of infrastructural development. In Morocco, for example, the first Agricultural Sector Investment Loan (ASIL) is being prepared, following two Agricultural Sector Adjustment Loans. While a set of policy conditionalities will still be part of the ASIL package, these resources will fund a tranche of the government's five-year investment plan (as opposed to any particular rural development project), rather than providing balance of payments support.

Domestic and Regional Political Economies

Agricultural price policy is not determined in a vaccuum solely according to the rules of economic efficiency, even now in the era of structural adjustment programs. The reality is that various political pressures enter into the equation, both domestically and regionally.

Domestic concerns. A responsible government seeks to maintain adequate food supplies for the least entitled segments of its population, which leads many governments to the creation of complex domestic food storage schemes or trade bans to "safeguard" domestic food production. Yet management of such food security supplies requires detailed knowledge of local as well as cross-border market trends, which is frequently lacking. Also, it is a far costlier option than the stabilization of domestic food supplies via trade (Reutlinger et al., 1986).

A forward-thinking government seeks to encourage producers to shift out production functions by adopting new technologies, which may imply the subsidization of some or all improved inputs. Such a policy may be paid for by setting producer prices at lower levels than they would be otherwise, i.e. the sector is taxed on the one hand and subsidized on the other so that the net transfer is zero.

If the "subsidized" input is used exclusively on a crop sold solely to parastatal purchasing agencies where the official producer price is paid, then such a policy is equitable -- producers are paying for the input they use. However, the input may be resold subsequently for use on other crops by farmers who do not cultivate the cash crop. Or there may exist alternative, higher paying markets where the cash crop can be sold. These distributional inequities may throw the social justification of such a policy in doubt.

On the other hand, there are certain sector services, such as research and extension, whose benefits may be more difficult to attribute to the producers of particular commodities or even to agricultural producers in general. In such a case, it is more appropriate to tax the economy more generally in order to cover their cost.

A further complication is that the interests of government officials and "private" sector actors may be intermingled, causing parastatal investment and operation decisions, as well as matters of trade and exchange rate policy, to be influenced by private interests, rather than the public good.

Each of these domestic political constraints imposes limits on the extent to which agricultural price policy can be reformed.

Regional concerns. The current practice of defining agricultural price policy reform on a country-specific basis is not only constrained by domestic political factors, but is also conditioned by policies in effect in regional (not to mention, international) neighbors or partners. While to some extent the degree of regional policy disharmony can be mitigated by coordination among countries at the level of the World Bank, for example, or in regional political economic fora such as the Economic

Commission for Africa or preferential regional trade zones, or even bilaterally, in reality there are too many examples of conflictual price policies being practiced across borders.

In the recent past, the Ivoirian government subsidized cocoa producers while their Ghanaian counterparts were heavily taxed, which not surprisingly induced flows of cocoa beans out of Ghana into Côte d'Ivoire. Today, as the Ivoirian government is no longer able to sustain those subsidy payments and now that the Ghanaian government has made a more concerted effort to promote cocoa production via improved price incentives, it is suspected that Ivoirian beans transit in the opposite direction. Similar stories exist for groundnut pricing policy between the Gambia and Senegal and can probably also be recounted of coffee pricing policy in Kenya, Tanzania, and Burundi. Harmonization of agricultural price policy across the region is vital, if the policy in any one particular country is not to be countermanded.

The problem is not just of cash or export crop pricing. Livestock products can be marched across borders on the hoof. In fact, such cross-border trade is a traditional feature of the Sahelian-coastal country regional market in West Africa. Subsistence food crops, too, such as grains, will be sold across borders when a neighboring country offers a higher price in order to accumulate food security stocks (and is able to support that price). In Nigeria, a ban on the importation of rice and wheat has existed for some time, the expressed goal of such a policy being to protect domestic rice and wheat producers against cheaper competition from abroad. Yet that policy has resulted in Benin becoming the largest importer of rice from Thailand. This may be somewhat startling at first glance given Benin's size, yet it becomes perfectly logical once the porosity of most African borders is considered in the context of Nigeria's limited capacity to produce rice economically.

While it may therefore seem appropriate to invest in border guards, the economic reality is that this simply raises transaction costs and results, in this last case, in higher prices to consumers in Nigeria. The more economically rational approach to the problem would be to accept the lack of comparative advantage of domestic rice and wheat production. Some proportion of domestic production could still be protected via a tariff policy, which would generate revenues for the state rather than traders and unscrupulous border guards.

Conclusion

This paper has traced briefly the general path of African economic development which has led in so many instances to the need for structural adjustment programming, both of the macroeconomy and the agricultural sector. The reform of agricultural pricing policy is one of the foremost components of these programs. Yet there exist significant problems in the tools used to measure price distortions, in the underlying paradigm driving the program design, in the application of a short-term strategy to a long-term problem, and in the avoidance of real domestic and regional political economic constraints. Agricultural price policy reform is a necessary but insufficient condition for the promotion of sectoral growth and economic health.

Notes

[1] We will discuss the problems inherent in such measurements below.

[2] So called because this current round of trade talks, still ongoing, was launched in Uruguay in 1986. Many developing countries are also participating in these negotiations.

[3] Excellent references on agricultural price policy reform in developing countries are Timmer, 1986 and Mellor and Ahmed, 1988.

[4] Maize is increasingly being imported in North Africa and the Middle East to supply the growing poultry sector. Overall, coarse grain import requirements are rising in that region as domestic livestock sectors become increasingly intensive, i.e. based on feed supplementation, rather than the development of natural rangelands.

[5] Its maize import requirements remain high due to the livestock sector demand. It has not yet been possible to disaggregate empirically the separate effects of policy and weather change on domestic production. For detailed analysis of the Moroccan case, see Tuluy and Salinger, 1989 and AIRD et al., 1990.

[6] Their inclusion would also have served to skew the patterns of protection to a much greater extent between industrial and developing countries.

[7] The World Bank's Agricultural Policy division of the Agriculture and Rural Development department has been largely responsible for the development of these models. See, for example, Braverman, Hammer, and Gron (1987) for a example of their work relating to Cyprus, or Braverman and Hammer (1986) for work in a Senegalese context.

[8] Measured as the coefficient of variation (standard deviation divided by series average) and taken from World Bank's Commodity Prices and Price Projections, October 17, 1989. Comparable figures for other commodities are: cocoa, 27%; sugar, 70%; rice, 33%; wheat, 16%; soy oil, 32%; and cotton, 24%.

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Burundian Fiscal Policy and its Impact on Private Savings

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Introduction

Structural adjustment programs were presented to developing countries during the 80s as a remedy to restart their economies that were in crisis. It was first necessary to re-establish a macroeconomic equilibrium to restart economic growth. According to the measures taken, some were deemed to have short term effects such as adjustment of aggregate demand to interior production or reduction of the budget deficit. One called these measures of stabilization. In contrast, other measures concerned profound structures of the economy and aimed for long term effects such as the changing of structures of production towards the promotion of exports and the substitution of imports. fiscal and tariff reform figured in this last category and are the object of this study. These are truly structural measures because they can affect the economic activity of diverse agents in their structure of production, consumption, etc.

Through the bias of fiscal policies, the government wants to realize a certain number of economic and social objectives. One of the objectives that the government aims for is budgetary equilibrium. But the undertaking of fiscal measures imposes prudence on the part of the government because these measures interconnect the revenue of private sector agents, economic activity and the revenues of different social classes.

The Two Parts of the Central Hypothesis:

- In a period of strong economic activity, the purchasing power of agents increases, also increasing the demand. This is a favorable moment for the government to regulate the aggregate demand through taxes and to raise public receipts.
- In a crisis period by contrast, the government should not raise taxes to stabilize its budget because it discourages economic activity and aggravates the situation.

The present study has as an objective to show that in the case of an economy in crisis the impact of fiscal policy on economic activity in putting the tax burden on contributors. We will analyze the case of Burundian fiscal policy and the impact of fiscal measures taken in the case of structural adjustment on private savings (the saving of households and private enterprises).

The data used is from the last decade but the study emphasized the period 1983 to 1987, 1983 was the beginning of reforms in the vain of S.A.P. even if it was not formalized until 1986.

Formulation of Study

Conforming to the terms of proposed reference, this study will follow 4 major points:

- The study of the structure and evolution of fiscal formulas to disengage the economic effects of different types of taxes and their weights.

- The study of the structure and the evolution of savings to do an evaluation of the importance of private savings and of the contributive capacity of contributors.
- The study of the characteristics of Burundian fiscal policy and its weight on different private contributors.
- A case study to concretize the weight of taxes on private enterprise.

1. THE STRUCTURE AND EVOLUTION OF FISCAL REVENUES IN BURUNDI

The government budgetary receipts are composed of fiscal receipts (93% of total) and administrative receipts (7%). For fiscal receipts, one has two categories:

- Direct taxes represent 25% of total government receipts or 27% of fiscal recsipts;
- Indirect taxes represent 68% of total government receipts or 73% of fiscal receipts.

Evolution of Burundian Fiscal Receipts 1983-1989

(in 10^6 Burundian Francs)

		:1983	:1984	:1985	:1986
1.	GNP	:100,658	118,170	138,791	137,195
2.	Commercial	:58,832	66,266	76,181	75,904
3.	Noncommercial	:41,825	51,904	62,610	61,291
4.	Government Receipts	:11,168	15,064	18,207	22,667
5.	Direct Taxes	:3,637	3,985	4,120	4,524
6.	Indirect taxes	:6,844	10,430	13,427	15,969
7.	Total taxes	:10,481	14,415	17,367	20,493
	5/7 (%)	:34.7	27.6	23.7	22.1
	6/7 (%)	:65.3	72.4	76.3	77.9
	6/2 (%)	:11.6	15.7	17.4	21
	7/1 (%)	:10.4	12.2	12.5	14.5
	7/4 (%)	:93.8	95.7	95.4	90.4

(continued)	:1987	:1988	:1989	Average 83 - 87
1. GNP	:136,449 :	158,217 :	173,214 :	126,253
2. Commercial	:80,212 :	99,205 :	103,928 :	71,419
3. Noncommercial	:56,237 :	60,012 :	69,286 :	54,773
4. Government Receipts	:17,872 :	23,861 :	29,679 :	16,996
5. Direct Taxes	:4,267 :	4,456 :	4,884 :	4,107
6. Indirect Taxes	:11,598 :	15,320 :	17,992 :	11,618
7. Total taxes	:15,865 :	19,776 :	22,876 :	15,724
5/7 (%)	:26.9 :	22.5 :	21.3 :	27
6/7 (%)	:73.1 :	77.5 :	78.7 :	73
6/2 (%)	:14.5 :	15.4 :	17.3 :	16
7/1 (%)	:11.6 :	12.5 :	13.2 :	12.3
7/4 (%)	:88.8 :	82.9 :	77.1 :	92.8

Source: Caviezel, L & Fouga, P : "Structural Adjustment, Employment and Poverty in Burundi", Annex of Statistics pp. 47-48.

Except the years 1988 & 1989 taken from the financial sector study for Burundi, USAID/Bujumbura, Annex 11 tables 2-7.

The portion of fiscal receipts in total government receipts (93%) shows that Burundi, as many other African countries, depends almost exclusively on fiscal receipts for its current budget. All this has an effect on the fiscal receipts conditioning the internal equilibrium (budget deficit), the level of public savings and the need for indebtedness. Even if the function of public services depends on fiscal receipts and tariffs it is not necessary to run the risk of wanting to inflate fiscal receipts according to other economic objectives (growth of the purchasing power of the population for example). Facing this dependence with fiscal receipts, one can already pose the question: isn't there a means of enlarging the possibilities for growth of government revenues? This returns us to the growth of non-fiscal receipts, that is to say administrative receipts.

Composition of Burundian Fiscal Revenues

(in 10^6 Burundian Francs)

	1983:	1984:	1985:	1986:	1987:	1988:	1989:	Average/ year 83-87
Direct Taxes	3637:	3985:	4120:	4524:	4267:	5166:	5145:	24.2%
Is/Rev & goods	3524:	3897:	4021:	4420:	4160:	5048:	4746:	23.6%
- Is/Soc	1888:	2119:	2103:	2181:	1977:	2264:	2003:	12.1%
- Is/RPP	1537:	1642:	1772:	2040:	1934:	2407:	2743:	10.5%
- Others	99:	137:	146:	199:	209:	377:	- :	1%
I. Actual	113:	88:	99:	104:	107:	118.5:	141.8:	0.6%
- Bldgs & Land	24:	0:	8:	7:	5:	10	6.3:	0.1%
- Vehicules	89:	88:	91:	97:	102:	105	136:	0.6%
Indirect Taxes	6844:	10430:	13427:	15969:	11598:	16450:	19990:	68.4%
Customs Revenue	2620:	4773:	6465:	8773:	4020:	7251:	8311:	31.4%
- Entry fees	1938:	1956:	2160:	3318:	2598:	4044:	3392:	14.1%
- Exit fees/ Coffee	0:	2293:	3544:	4595:	613:	3009:	3818:	13%
- Exit fees/ Other	108:	61:	249:	210:	142:	218:	253:	0.9%
- Other customs revenue	574:	464:	511:	650:	667:	—:	847:	3.4%
Consumption Tax	2150:	2251:	2478:	2396:	2480:	5558:	3222:	13.8%
Transaction Tax	2074:	2535:	2850:	3235:	3489:	3622:	5932:	16.7%
Other Taxes		870:	1455:	1566:	1609:	—:	2524:	6.5%
Admin. Receipts	686:	649:	839:	2173:	2007:	2268:	7201:	7.5%
TOTAL	11168:	15064:	18207:	22667:	17072:	23884:	32336:	100%

Source: Caviezel, L. & Fouga, P.: "Structural Adjustment, Employment and Poverty in Burundi", Annex of Statistics pp. 47-48.

Year 1988: Prime Minister and Minister of Plan, "The 1988 Burundian Economy", Annex of Statistics, table 6.2.

* Includes the recuperation of growth.

The administrative revenues represent a very small portion of the budget (7%). They are principally obtained by:

- Payments for administrative services
- Revenues from public enterprises
- Household revenues.

In the instance where public enterprises report very little revenue to the government, one could envision the privatization of these that do not carry a social priority. In this manner, the revenues of the government will rise.

Direct and Indirect Taxes

Direct taxes simply correspond to the existence of a revenue or good. It is clear therefore that a direct tax is less extensible than an indirect tax in the fact that it hits a fixed, taxable matter and that it is more perceptible to the contributors.

Indirect taxes as compared to them relate to the utilization of revenue. They are therefore a function of the production on which are carried different transactions. The amount of indirect taxes is therefore related to commercial production.

Direct taxes which contribute nearly a 1/4 of the fiscal receipts derive nearly in totality from the revenues of physical persons (professional revenues) as well as the profits of businesses. Apart from this type of tax on revenues, there is a tax on real goods (buildings, grounds, vehicles, etc) that accounts for .6% of fiscal receipts.

The weakness of the direct tax is without a doubt explained by the fact that taxable matter is fixed and a rise in the tax rate has a tendency to diminish this matter. It is therefore the revenues (especially fixed revenues) and goods where taxing is the most sensitively felt and where by consequence the margin of variation of tax rates is reduced. An overall increase will therefore not occur by an increase in rate but by an enlargement of the range of application.

With a tax rate of 45% on business profits, these aforementioned contribute nearly 12.1% of the country's fiscal receipts. The tax on professional revenues (salaries) is the other principal component of direct taxes: it accounts for 10.5% of government receipts.

Indirect taxes are principally composed of:

- Customs receipts are 34% of the tax total. These are essentially entry fees on imports (14%) and exit fees on coffee (13%);
- The consumption tax on beverages (13.8%);
- The transaction tax (16.7%).

Indirect taxes constitute the principal of fiscal intake. They were regularly augmented from 1983 to 1986 in passing from 6.844 to 11.598 (millions of Burundian francs). They were however reduced in

1987 in dropping to 11.598. Because they depend on the transaction of goods and services, indirect taxes are more elastic. It is also profitable because tax evasion is difficult carry out in this case. The indirect tax is nonetheless unjust because it reverberates equally on all purchasers no matter what their level of income.

Note however that certain types of indirect taxes carry a bit of uncertainty because they are applicable to an uncertain base. Thus the volume of receipts punched to coffee exports depends on the seasonal production of coffee as well as the market which has a tendency to be very volatile.

For Burundi, certain ratios show the weight of fiscal policy

- The aggregate tax rate expressed by the relation of taxes on the GNP to the market price is 12%;
- The relation of indirect taxes on the commercial GNP is 16%.

But it seems that the aggregate rate of fiscal pressure is well above 12% especially for the rural sector which must further support a community tax; as for example:

- The tax on banana beer
- The tax on products sold at the market
- The tax on administrative papers.

When one tries to ask oneself the question of who pays these taxes , that is to say in which proportions the different revenue classes contribute to fiscal receipts, the response is not clear. First of all because there always exists a series of taxes that do not come to the attention of the central administration; furthermore it is especially difficult for indirect taxes to determine exactly the system of repercussions and the final point of falling of indirect taxes. Often, in fact, he who pays taxes is often not he who supports it.

However, if one supposes that the most elevated classes of revenue are in the city and the lowest in the rural areas, there is place, under certain hypotheses to determine the portion of taxes the come from rural inhabitants and that which comes from city dwellers.

Caviezel, L and Fouga, P. for example, consider that all professional revenues and business profits are garnered by city dwellers, that exit fees for coffee are totally imputable to rural inhabitants, that entry fees are imputable to 5% for rural inhabitants and to 95% for city dwellers and that the consumption tax on beer derives 75% from city dwellers and 25% from rural inhabitants. With these suppositions, they arrive at the conclusion that taxes paid by farmers rose from the period before structural adjustment passing from 34.1% to 39.5%. By contrast those of city dwellers diminished, passing from 65.9% to 60.5%.[1]

2. THE STRUCTURE AND EVOLUTION OF BURUNDIAN SAVINGS

The contribution of economic agents to the internal revenue service supposes first of all the existence of taxable revenues. An analysis of savings is therefore imposed to judge the weight of fiscal policy on contributors. The following table shows the structure and evolution of Burundian savings.

Beginning with a few of the ratios calculated above, one remarks that domestic savings is very low compared to exterior saving if one relates it to the volume of investment. Interior savings therefore secures more or less 40% of investments, the remainder is secured by exterior savings. This contributes to increase the dependence of investments according to foreign resources. The rate of interior savings as related to GNP was on the average 6.8% for the period 1983-87. Private savings occupies 35.5% of investments or more or less 3 times less that of public savings.

The level of savings of a country is an indicator of the contributive capacity of its economic agents to the governments internal revenue service. For Burundi, the level of savings has undergone annual fluctuations in the course of the last several years. From 1983 to 1987, the rate of gross domestic savings was 6.8% compared to the GNP or a level slightly superior to the average level for sub-saharan African countries. The rate of exterior savings was also elevated to 10.9% of the GNP. This permitted Burundi to realize an important level of investment. However, the country has grown more and more dependent on the exterior to realize its investments that were 61.6% financed by exterior resources. From 1983 to 1987, grosss national savings went on increasing, at least since 1984. It rose 10,260 million Burundian francs on average each year or 47.9% of the investment for the period. One further remarks that during this same period the preponderance of private savings occupied 35.%% of investment versus 12.3% which came from public savings.

In a dynamic economic system, it is domestic savings, especially private savings, that should finance investment without having to return to excessive borrowing as was the case for Burundi in 1983.

2.1. PRIVATE SAVING IN BURUNDI

The mobilization and the collectivity of private savings in Burundi is characterized by the following traits:

- Nearly all mobilized savings pass through the formal sector: banks and other financial institutions.
- The formal circuit of the financial sector is primarily occupied with the urban sector.
- It has a package of regulations and bureaucratic procedures that are overly controlled and too rigid. Also, the formal financial sector has not even mobilized all the savings of the

THE STRUCTURE AND EVOLUTION OF SAVINGS IN BURUNDI (In 10^6 Burundian francs)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	Moyenne 1983-1987
PIBpm	82.775	87.215	91.190	100.658	118.170	138.791	137.195	136.449	162.624,6	104.993
Ep. int.brute	283	4.854	- 813	8.191	5.472	6.907	10.162	12.140	3.604,5	8.574
Ep. nat.brute	3.889	8.767	1.834	10.538	7.650	8.545	11.743	12.912	10.504,9	10.278
Ep. publique	2.596	2.000	2.114	1.111	1.592	1.962	4.732	3.112	2.134,7	2.502
Ep. extérieure	11.211	9.978	13.977	14.791	16.237	12.330	5.813	19.472	20.468,8	13.729
Investissement	11.493	14.832	13.184	22.982	21.709	19.238	15.975	31.612	24.073,3	22.303
Ep. privée	1.293	6.770	- 279	9.426	5.968	6.584	7.010	9.800	8.370,2	7.758
EIB/PIBpm	0,4%	5,6%	-0,9%	8,1%	4,6%	5%	7,4%	8,9%	2,2 %	6,8 %
EIB/I	2,5%	32,7%	-6;2%	35,6%	25,2%	35,9%	63,6%	38,4%	14,9 %	39,7 %
EE/I	97,5%	67,3%	106,2%	64,4%	74,8%	64,1%	36,4%	61,6%	85 %	60,3 %
ENB/I	33,8%	59,1%	13,9%	45,9%	34,8%	44,4%	73,5%	40,8%	43,6 %	47,9 %
EPr/I	11,3%	45,6%	-2,1%	41 %	27,5%	34,2%	43,9%	31 %	34,8 %	35,5 %
EPu/I	22,6%	13,5%	16 %	4,8%	7,3%	10,2%	29,6%	9,8%	8,9 %	12,3 %

Source : CAVIEZEL,L & FOUGA,P., L'ajustement structurel, l'emploi et la pauvreté au Burundi. Annexes de statistiques, p.24.

Année 1988. Premier Ministère et Ministère du Plan, "Economie burundaise 1988" annexes statistiques, tab .3

country as is the present case of the informal sector. It is therefore not even possible to take account of the savings potential of the informal sector.

Nevertheless certain studies that have been done in this area have showed that the informal sector of several African countries constitutes a potential source of savings and a compliment to the formal sector. Certain other sources estimate this potential of informal savings at 5% of the African GNP. If this is also the case for Burundi and when one knows that real domestic savings oscillates around 5% of GNP and that the revenue of the informal sector is estimated at 19% of GNP and that of the traditional sector at 45%, there is reason to think that one is able to double the level of formal saving in capping the potential of the informal sector. On the other hand, the characteristics of this informal saving leaves one to think that its cost of mobilization is reduced but it is flexible, heterogeneous and operable in all sectors (rural and urban). It is generally limited to the covering of particular risks and to the acquisition of equipment. Borrowing in rural areas is generally not tied to monetary interests. It is done in small amounts because of the weakness of monetization in the rural milieu.

The source of rural informal saving has already been the object of certain efforts witnessing the Savings and Credit Cooperatives (COOPEC). The experience of COOPEC showed that the rural milieu had an important savings potential. This saving should help reduce exterior dependence related to investment to which it is linked in Burundi. This savings should be invested in the rural setting, particularly in agriculture, to increase the buying power of farmers.

Development of the artisanal and agriculture sector that goes on par with the monetization of the rural milieu constitutes an important potential source of tax resources for the government. Nevertheless, the contributive capacity of farmers and artisans is still low as indicated by their level of income.

According to studies done with farmers and artisans, the level of income of the latter could be estimated as follows:

<u>Estimates of the Level of Income for Farmers and Artisans</u>

	1980	1981	1982	1983	1984	1985	1986	1987	TCAM*
Estimate of real salary / artisan (1970 prices)				20,999	18,760	23,634	17,949	18,725	-2.87%
Average real income / farmer household	5,066	7,273	5,095	5,901	4,977	5,894	5,729	6,108	
Index (1970 = 100)	102.5	147.2	103.1	119.4	100.7	119.3	116	123.6	0.9%

Source: Caviezel, L & Fouga, P. : Structural Adjustment, Employment and Poverty in Burundi, Annex of Statistics, pp. 5-7.

LAAG* = Level of Average Annual Growth

One ascertains therefore that artisans and farmers have a sufficiently modest monetary income. But seeing the potential for savings that the rural world is capable of furnishing, it is imperative that the government undertakes efforts to develop economic activities in this sector. This is only after raising the level of income of the taxpayers that the government can hope to extract greater tax receipts. The fiscal policy in the rural world should follow and not precede the development of economic activities.

The extension of the field of imposition towards the rural milieu will have much more of an advantage as this sector comprises a very large number of taxpayers and it will suffice to draw a minimum part from each taxpayer to collect important resources. The expansion of economic activities will bring for example, small rural enterprises: bakeries, carpentry workshops, brick ovens, etc.

3. CHARACTERISTICS OF BURUNDIAN FISCAL POLICY

Legislation at the level of taxation before the period of structural adjustment was not apt to favor the expansion of the private sector. The government engaged in framework of S.A.P. adopted measures aiming to facilitate the work of economic operators as well as the recovery of the government's credit. It is in this framework that it is necessary to note the putting in place of a drawback (restitution of tariffs paid on the importation of primary materials after the exportation of finished products). The tariff on importation was equally modified to improve the competitiveness of local products and to favor the use of local primary materials.

Some sectors considered fragile and strategic to the country were however exempted from this liberalization. This pertains to the industries of cotton, glass, pharmaceuticals as well as tariffs on public services.

On the other hand, a series of measures destined to increase public receipts were undertaken; such as the reform of the transaction tax: elevation of rates, extension of the range and perception of the level of importation. Other measures have been adopted in the course of the period of adjustment:

- augmentation of the price of beer and carbonated beverages
- obligation of public enterprises to tun over some dividends to the government
- reinforcement of the recovery of indirect taxes
- simplification of customs fees
- the computerization of revenue services to diminish fraud

In this section of work, it pertains especially to the study of taxes on incomes because it is this type of tax that hits directly the income of taxpayers and on which the margin of operation of the government is the most limited.

3.1. INCOME TAX

There exists in Burundi two types of taxes on the income perceived at the level of the Central Administration with different scales:

- tax on professional incomes (= salaries)
- tax on business profits

The taxes on rental incomes were transferred to the municipal level in 1984.

Tax on professional incomes

This type of tax strikes income tied to employment. The scale of this tax is progressive and carries 14 rates going from 5 to 60%. The maximum (60%) is applied to incomes that exceed 4 million Burundian francs. The tax on professional incomes is therefore less progressive than that of rental incomes for which the maximum (60%) is attained beginning with incomes that surpass 1,500,000 Burundian francs.

The two major characteristics of assessing incomes in Burundi are:

1) A system of significantly scaled assessment giving place to a compartmentalizing of incomes.

2) A strong progressiveness of taxes.

These two factors provoke important distortions in economic decisions and create injustices at the level of distribution of the tax burden. In considering that the salaries of government officials that constitute the major part of officials, were blocked since 1980 and that the indicator of the cost of living has been rising since, it is evident that the progressiveness is still intensifying in real terms. On the other hand, for intermediate incomes, the slide of cut offs in real terms weighed to disadvantage the tax burden, especially for those with low incomes.

The following table shows the evolution of the real salaries of civil servants and the cost of living.

Index of salaries for government officials
and the cost of living in Bujumbara

	80	81	82	83	84	85	86	87	88*	89*
Cost of living in Bujumbara 1980 = 100	100	109	120	130	148	154	157	168	181	196
Individual nominal salary for government officials 1980 = 100	100	111	123	126	133	147	163	177	191	206
Individual real salaries for government officials 1980 = 100	100	102	103	97	90	96	104	105	107	109

Source: Calculated from figures taken from Caviezel, L & Fouga, P: "Structural adjustment, Employment and Poverty in Burundi", Annex, pp. 5-6.

* Calculated by applying the average level of growth from 1983-87.

Considering the rise in the cost of living, prices in particular, it is necessary to make periodic adjustments to the cut offs according to rising prices.

It is to observe that the government often prefers to exonerate certain types of income. This solution aggravates the distortions that create taxes on income at the level of decisions and of economic incentives: tax evasion, reduced saving, capital flight and development of an underground economy. Also, in wanting to increase tax receipts, the government puts the breaks on the economy. The scale of taxes on professional incomes in Burundi is characterized by irregularities as well as a level of progression in the divisions as well as the rates.

- At the level of divisions, the 2 first tax divisions rising from 30,000 and from 70,000 as well as the 9 following divisions are of an amount equal to 100,000 and precede 3 divisions of 1 million each.
- At the level of rates, the rise of marginal rates corresponds to the divisions and they also lack regularity. The marginal rate corresponds to the 4 first divisions rising from 5, 3, 4 and 3 percentage points respectively. Following from the 5th to the 9th division, the progression is constant at 4 percentage points. For the other divisions , the rise of the marginal rate becomes very irregular with 5,1,2,4,8,5 percentage points. This scale disfavors certain taxpayers that find themselves in certain brackets.

Burundi - Income Tax: Comparison between the Present Scale and the Proposed Scale

Barème actuel				Taux proposé			
Taux marginal d'imposit. (%)	Tranches de revenu (FBu)	Impôt dû à la limite sup. de la tranche (FBu)	Taux d'impos. moyen (%)	Taux marginal (%)	Tranches de revenus (FBu)	Impôt du à la limite sup. de la tranche (FBu)	Taux d'imposit. moyen (%)
5	0 - 36.000	-	-	-	0 - 60.000	-	-
8	36.001 -100.000	6.920	6,92	-	60.00 - 200.000	14.000	7
12	100.001 -200.000	18.920	9,46	10	60.001 - 200.000	14.000	7
15	200.001 -300.000	33.920	11,31	-			
19	300.001 -400.000	52.920	13,23	15	200.001 - 400.000	44.000	11
23	400.001 -500.000	75.920	15,18	-			
27	500.001 -600.000	102.920	17,16	25	400.001 - 600.000	94.000	15,67
31	600.001 -700.000	133.920	19,13	-			
35	700.001 -800.000	168.920	21,12	-			
40	800.001 -900.000	208.920	23,21	-			
41	900.001-1.000.000	249.920	24,99	35	600.001 - 1.200.000	304.000	25,33
43	1.000.001-2.000.000	679.920	34	-			
47	2.000.001-3.000.000	1.149.920	38,33	45	1.200.001 - 3.000.000	1.114.000	37,13
55	3.000.001-4.000.000	1.699.920	42,50	55	3.000.001 et plus	-	-
60	4.000.001 et plus	-					

Source : Code des impôts du Burundi; estimation de la mission du FMI.

A small comparison between the income tax scales in Burundi and in other countries can illustrate the difference. The minimum taxable income, the maximum marginal rate and the level of income hit by the last can reveal the relative weight of taxes on income as well as the degree of progressiveness.

In connection with this, a study by the World Bank[2] in January 1988 presented these results as related to GNP by family (5 times the GNP/habitant). In this study, one calculated the floor ratio of non-taxable income on the family income that is "the indicator of the threshold of taxation". For Burundi, this indicator is among the lowest of the low income countries (the third to last). It is in contrast very elevated for countries where taxes are not an important source of receipts (countries of the Indian sub-continent for example).

A setting up of taxable minimum (that is to say the enlargement of the division at rate 0) would therefore bring together the indicator of a tax threshold in Burundi with that in other countries.

To reduce these distortions, an IMF mission in its report of January 30, 1989 proposed reform that rested on 2 simple principles:

1) Moderation of progressiveness
2) Enlarging the scope of taxes.

Conforming to these 2 principles, the IMF mission proposed the adoption of a new scale composed of 7 divisions and of rates ranging from 0 for the first 60,000 to 50% for incomes surpassing 2 million. In this scale, the degree of progressiveness of marginal rates (=rise of marginal rate/increase in 5 of income) is moderated for smallest incomes. It attains its maximum between the 3rd and 4th division to avoid all the weighting of the fiscal burden on middle incomes and bends between the last 2 divisions. The proposed scale is found in the table below.

The government of Burundi envisions a revision of taxes on professional incomes. This new tax comprises an exoneration of taxes on incomes of 100,000 Burundian francs annually for all agents in the public sector, parastatal and private. Concretely this signifies that a single sector of the Public Administration, 8,000 people (about 1/3 of public servants) will be totally exonerated from taxes, the remainder were only exonerated on the first 100,000 Burundian francs. To this effect, the new proposed scale (note that it is still not yet adopted) confers real advantages on taxpayers.

<u>New proposed scale</u>

Rate	Division		Tax	Average Tax
0%	0 -	100,000	0	0%
10%	100,000 -	200,000	14,000	7%
15%	200,001 -	400,000	44,000	11%
25%	400,001 -	600,000	94,000	15.7%
35%	600,001 -	1,200,000	304,000	25.3%

<u>Source</u>: Renewal of March 14, 1990, p. 6. "measure of exoneration".

A comparison of the old and new scales reveals that even if the changes envisioned in the new scale are do not exactly conform to those proposed by the IMF mission, the stated objectives will essentially remain respected.

In the new scale one notices the following changes:

- a raising of the 0 rate division
- a more regular and modest progressiveness for lower incomes
- an enlargement of the divisions and a reduction of their number

Tax on business profits

The tax on business profits accounts for half of direct taxes or 12% of direct taxes from 1983 to 1987.

The tax scale applied directly to business profits is fixed at 45% of profits; but it is difficult to establish the relation between the variation of this rate and the incentive to invest in the private sector. In any case, a tax on profit is not an incentive to the level of production.

Investment in the private sector seems to depend on other factors in the framework of liberalization of the economy: revision of customs duties, mobilization of savings and distribution of credit, growth of the population's buying power (in guaranteeing a remunerative on agriculture products for example).

In the case of liberalizing monetary and credit policies, certain measures have been adopted:

- Promotion of interest rate determination by market forces
- Simplification of a complex interest rate structure
- Encouragement of the implementation of more flexible credit control instruments

These measures without a doubt favor the growth of private enterprise investment which is shown in the Fourth Five-Year Development Plan. During this period, private enterprise investment grew from 10.7% of total investment.[3]

To illustrate the impact of fiscal measures on private enterprise, we analyzed the following two cases where the weight of fiscal policy seemed to be particularly resented: the auto-fuels and the industrial fishing sectors.

1. Industrial fishing sector

Fishing in Burundi occupies an important place because it brings to the population complimentary animal proteins in which it is particularly deficient. The 3 types of fishing practiced are:

- traditional fishing (fishing from a single small boat)
- artisan fishing (with the use of catamarans)

- industrial fishing (fishing with large motorized boats)

The relative importance of these 3 sectors can be illustrated by their fish catches. In 1989 for example the fish catch was divided in this way for the three sectors:

<u>Fish Catch (1989)</u>

	Traditional Fishing	Artisan Fishing	Industrial Fishing	Total
Unit Quantity of Fish	76	418	16	510
Total # of Excursions	10,816	91,610	4,602	107,028
Fish Catch				
- Kgs	172,598	10336,535	1784,160	12293,293
- FBu	15148,753	799388,460	143276,652	957813,865
Unit catch (Kgs)	2,271	24,728	111,510	
Excursion by Unit Quantity	42	219	287	

<u>Source</u>: Information provided by the Water, Fish and Fish Farming.

Here are the different rates on industrial fishing:

- Fishing permit: 400,000 FBu per year
- Sales tax on fish: 200 FBu per case = 5 FBu per kg
- Measurement tax: 120,000 FBu per unit per year
- Municipal tax: 100,000 FBu per year
- Excursion permit: 6,000 FBu
- Navigation permit: 6,000 FBu
- Rent on fish house: 10,000 FBu per unit of fish per month
- Transaction tax: 7% of commercial figure
- Tax on the result: 45% of the result.

The complexity of taxation is already evident by the multiplicity of taxes supported by the sector.

To appreciate the effect of this taxation, it is convenient to calculate the gross margin (before operating expenses) of a unit of industrial fish on the bias of the information given below:

Commercial figures = by industrial unit	$\frac{143,276,652}{16}$	= 8,954,750 FBu or the equivalent of 111,500 kgs of fish

Fishing permit:	400,000
Sales tax on fish:	557,500
Measurement tax:	120,000
Municipal tax:	100,000
Exit permit:	6,000
Navigation permit:	6,000
Fish house rent:	120,000
Transaction tax:	266,832
Total	1,576,332

The total taxes paid by average unit is 1,576,332 FBu or 17.7% of the commercial figure. The gross margin for which it is still necessary to deduct operating expenses and the tax on the profit is therefore 82.4%.

To suppose that operating expenses represent 60% of the commercial figure, one will have:

Commercial figure (C.F.)	8,954,750	
Total taxes	-1,576,332	
Gross margin	7,378,418	
Operating expenses (60% of C.F.)	-5,372,850	
Profit before tax	2,005,563	
Tax on profit (45%)	-902,506	
	1,103,062	= 12.3% of the C.F.

Industrial fisherman essentially complain of two types of tax: the sales tax on fish and the transaction tax which signifies the same thing. These 2 taxes are considered by the fisherman as a double imposition. They represent the most elevated of taxes.

The heavy tax on the industrial fishing sector hurts the aforementioned to the benefit of the artisan sector, according to fishing statistics has not ceased to grow (in quantity of fish taken and in unit number fished) during 1989. This is understandable because this sector is only burdened by the community tax.

2. Tax on motor-fuel

The import and distribution sector for motor-fuel is one of the key sectors for the national economy. The government establishes monthly a price structure for importation and distribution leaving a gross margin to wholesalers and retailers. Due to this regulation, the price of motor fuel is the same (100 FBu) in every part of the country.

Price Structure for Premium Fuel

(April 1990)

		Essence super via Nairobi	Essence super via Kigoma
A.	Prix FOT (US $/L)	0,225	0,279
	Taux de change (FBu/US$)	176	176
	Prix FOT (FBu/L)	39,6	49,10
B.	Frais		
	Transport jusqu'à Buja	24	1,10
	Coulage transp. (0,3% C&F)	0,19	0,15
	Assurance (1,075% FOT)	0,43	0,19
	CIF Bujumbura	64,22	50,54
	Droits d'adminis. (1% FOT)	0,40	0,49
	Frais SEP	1,20	1,20
	Dechargement SEP	0,10	0,10
C.	Taxes		
	Droits d'entrée	1,65	1,65
	Taxe de service (4% CIF Buja)	2,57	2,02
	Patente (0,5% CIF Buja)	0,32	0,25
D.	Prix de revient	70,46	56,25
E.	Marge bénéf. grossiste	8,50	11,50
F.	Divers fonds		
	Fonds routier national	5	5
	Fonds de régularisation	4	4
	Fonds spécial carburant	8,54	19,75
G.	Détermination prix de vente		
	Prix de vente gros	96,50	96,50
	Bénéfice détail	3,50	3,50
	Prix de vente détail	100	100

To calculate the price to importers, the Minister of Commerce and Industry first fixes the FOB price at the port of reference to which it adds rail charges, storage and handling as well as different taxes and funds.

Nevertheless, as these elements of the price occur they can vary in favor or disfavor of the importer (rate of exchange, FOT price at the transit port, etc.), foresees a stabilization fund.

When the marginal benefit is high according to the port of transit, the different stabilization funds foresee at this moment higher appropriations. Also, as these funds hardly change the margin left to the importer, it is considered as a supplementary rate. The different appropriations supported by an importer of motor-fuel are the following:

1. Administrative fees
2. Entry fees
3. Service tax
4. Patent
5. National road fund
6. Stabilization fee
7. Special fuels fund
8. Profit tax

Faced with this regulatory structure, importers encounter certain problems such as:

- The difficulty of planning because the price structure changes each month:
- A problem of the treasury due to the fact that all (except the profit tax) must pass through the treasury no later than 15 days after the month of importation, failure of which one pays penalties for lateness that can go on until the closure of the enterprise.
- A gross margin judged too low (more or less 10% of the sale price) as compared to other sectors. This arises from the fact that the return price does not take account of the cost of operation of the enterprise.
- The transaction tax hits the importation of capital equipment in this sector as well as material that is not destined for sale.

An enterprise that holds for example 25% of the national market sells an average per month of 1,500,000 liters. This gross margin will rise therefore if the product comes from Nairobi at 8.5 FBu/liter x 1,500,000 = 12,750,000 FBu. In supposing a level of operational expenses of 50% of commercial figures or 6,165,250, the enterprise will have the following net profit:

12,750,000:	Gross margin
6,165,250:	Management fee
6,584,750:	Profit before taxes
-2,963,137:	Tax of 45%
3,621,613:	Net profit, i.e. 2.3 FBu/liter

One therefore realizes that this amount is low enough to encourage new investment in the sector. The rise in profits not only depends on the unitary marginal revenue that is not very attractive but the number of liters sold for which an investment has already been made.

Notes

[1] Caviezel, L & Fouga, P.: "Structural Adjustment, Employment and Poverty in Burundi", Bujumbura, FSEA, June 1989, p. 39.

[2] Sicat & Virmani, The World Bank "Economic Review", January 1988, pp. 23-38, estimation from accounts services.

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A Theoretical Treatment of Tax Policy

by

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The structural adjustment program in Burundi remains a little known subject among those who do not specialize in our country, in spite of the fact that it is at the end of its second phase. Without repeating to the characteristics of structural adjustment programs, it is important to emphasize that there are two important phases, namely: stabilization and the restarting of growth through structural changes in the economy.

Tax policy is an instrument of economic policy that is widely used in the two phases mentioned above. The government plays a dominant role in the Burundian economy. As is indicated in the paper by the Chamber of Commerce and Industry, the government revenue represents nearly 29% of the commercial GDP and these investments are going to represent in 1990 nearly 80% of total investments.

In the stabilization phase, the efforts conducted have, among other things, aimed at the reduction of the budget deficit which was caused by a very expansionist budgetary policy in the beginning of the 1980's with well known inflationary consequences and the deterioration of the balance of payments. In the restructurization phase, in addition to economic policy measures aimed at reducing distortions resulting from an overly too interventionist policy in the economy, tax policy can play an important role in creating the necessary incentives to restart private investment which is indispensable for the growth of a lasting economy.

The object of this paper is to present certain principles of public finance to guide reflection on the extent to which the government has or is able to resort to tax policy as an instrument in its policy of structural adjustment. To this end, I intend to do a brief presentation of the characteristics of public expenditure in Burundi and to indicate its relation to the tax structure. Following this, a presentation of the different types of taxes will be done with reference to their structure in government revenue. This description is going to permit us to present the properties of each type of tax in relation to the principles of optimal taxation. The principles of optimal taxation make evident certain insufficiencies in the current taxation structure with respect to its inefficiency and its lack of incentive for saving and investment.

In the next section, I will discuss in broad and profound terms an urgently needed consideratin of tax structure, reform, and the general directions of reform needed to adopt a realistic structure of taxation which does not discourage savings and which takes into consideration the development needs of Burundi at the national, regional, and international level.

Public Spending

The Role of the Government in the Economy

In the basic books of economic policy and public finance, it is acknowledged that the government has, to a degree, a social responsibility to play a role in production, in the redistribution of wealth, in the stabilization of the economy and the promotion of development.

Depending on the type of society, the government itself can assure the production of goods and services or delegate this responsibility to the market. However, there is always a large category of goods called public goods that cannot be produced by the market, as with national defense, justice, etc. The needs of the government for these programs of production, redistribution, stabilization and development require the mobilization of resources whose principle source is taxation and tariffs. At the level of the annual program, the government adopts a budget for expenditures that can be divided into current expenditures or capital expenditures. In Burundi these two programs are known as the ordinary budget (budget ordinaire - B.O.) and the special budget for investment (le budget extraordinaire d'investissement - B.E.I.).

The expenditure program represents the options chosen by the government to achieve certain welfare objectives for the society. In general, to be able to evaluate the objectives and structure of the budget it is at times necessary to deepen the selection mechanisms for these programs inscribed in the budget. Public choice theory indicates the different mechanisms by which society is able to express its preferences and priorities. It is also accepted that the choices made by the representatives of the community should be reflected in the budget, and these choices are financed by the community which hopes to obtain its benefits. This philosophy justifies for example that certain budgetary structures, special funds for education, roads, etc.

Budgetary Structures

In Burundi we have two types of budgets: one for current government operations and the other for public investments. Is there merit in separating these two types of budgets? We are going to try to respond to this question when we succinctly present the qualities of a budget.

Returning to the structures of the budget, we should remember the principle headings for a budget of current expenditures; these are the expenditures in necessary goods and services for the functioning of public services (68% of the total current expenditures in 1989), the payment of interest (15%) and transfers (16%). The current expenditures for 1989 represented 15% of GDP at market prices, which was estimated at 173,214 million Burundi francs, or 25% of traded GDP. Exterior debt service represented nearly 44% of export receipts. This demonstrates the excessive weight of exterior indebtedness on the economy and the situation should be even worse after the monetary adjustment last November (-15% as compared to the SDR) and the reduction of expected receipts of currency due to the severe drop in coffee markets (a worsening of the balance of trade deficit on the order of 3.5 billion is projected for the 1990 campaign).

The current budget revenues are estimated at 31,244 million Burundi francs in 1989, to gross public savings of 4,993 million Burundi francs, but we should emphasize that the current expenditures do not take into account the recurrent charges that represent the appreciation of public capital. This reduces the net public savings to a negative level.

The execution of finance law is complicated by a multitude of accounts outside of the budget (more than 200 for the public accountability services) and special funds. The accounts outside of the budget make it difficult to see the management of public resources, and the multitude of special funds cause serious problems in the management of the government treasury. These special funds are principally justified because they assure that certain activities are not neglected at the time of allocation of resources and guarantee that funds are used for services desired by recipients. It is necessary to acknowledge that the system of initializing funds for a special usage bodes weakness for resource allocation by the budget system.

The major inconveniences of the system of special funds are relevant to the accountability of government financial operations and to the management of its treasury. The government occasionally finds itself in a deficient budgetary condition and is obligated to borrow, whereas certain service accounts or affiliated organizations have a surplus. Another consequence of this management system for public funds is that resources are occasionally dispensed to satisfy non-priority needs and mobilized resources are not always linked to real program expenditures for the activity. This system prevailed for a number of years in Burundi, but it is necessary to note that the government used more and more of the resources of the special funds for the financing of the current budget. The national road funds, the special auto-fuel funds and the economic promotion funds were recaptured in the current revenues of public administration.

Even if the ideal consisted of having a general consolidated budget that concentrated the budgets for current and capital expenditures, it is useful to keep a separate presentation to make evident from others expenditures for capital that can be given a measure of consensus efforts by the government in the process of necessary capital accumulation to lay the groundwork of economic growth. In fact certain current expenditures incontestably contribute to growth in assuring the maintenance of the capacities of factors of production (e.g. educational and health expenditures).

The government has embraced a program of reform in the programming of public expenditures (PDP-PIP) and of budgetary and accountability reform that very much attacks the gaps enumerated on above. These reforms, if they are brought forth on time, will permit a better management of the budgetary processes in reconciling the disadvantages of annual budgetary choices to the objectives of the sectoral policies of the ministries of plan and development. The process of selection and the quality of expenditure programs depends on the heart itself of the rationalization of budgetary choices. We must point out, however, that in addition to the technical efforts put into place, this question has non-negligible political content that makes it difficult to evaluate the results of reform on a purely technical basis.

The government is certain to undertake reform of the process of public spending in improving their programing and the management methods of its financial operations that will enable it to better evaluate its contribution to economic growth. But we know that it is not enough to stop an expenditure program to obtain its objectives, without adopting a method of appropriate financing to reduce the pernicious effects on the welfare of the members of society. In fact, the financing of public expenditures through recourse to taxation, borrowing or the creation of money will have different effects on the economy in terms of efficiency or in terms of equity.

Taxation

Generalities

The system of taxation is a very vast domain; we have chosen to limit our presentation to the description of different types of taxation in strength grouped under two headings: taxes on goods and services produced or exchanged and taxes on revenues or the property of physical and moral persons. The first type of taxes are classed in the category of indirect taxes and the second type is classed in the category of direct taxes. Each category will be analyzed by putting forth its characteristics, i.e. its capacity to reduce distortion effects linked to the majority of taxes or its effects on equity in the distribution of the fiscal burden.

The ideal type of tax is a poll tax because it levies on the person according to his sex or his age and there is nothing that the economic agent can do to reduce the effects of the tax. He cannot modify his behavior in terms of economic activities. This is a superbly efficient tax but one is not able to say it is neutral because it affects the income of economic agents. This type of tax is unfortunately not equitable because people with different incomes pay the same amounts without taking into account their capacity to contribute. This results in the unequal redistribution of the tax burden in disfavoring the least secure levels of society. This type of tax has practically disappeared because it is politically unpopular and also because the potential to raise revenues is weak in relation to the financial needs of the government. The England of Margaret Thatcher is in the middle of reviving this experiment but apparently at a fairly high cost. The poll tax was abolished in Burundi with independence.

As is often the case with economic analysis, there is a conflict between efficiency objectives and equity objectives, and according to the values of each society and the economic problems of the moment, it is difficult to obtain a perfect equilibrium between these two objectives in any fiscal law.

One can say that for a country like Burundi the preoccupations with augmenting production are a priority and part of the economic efficiency objective can appear predominant without entirely neglecting the redistribution aspect through the programs in favor of the most disadvantaged populations.

Principles of Optimal Taxation

The question is raised in terms of the consequences on the behavior of economic agents when they have to face direct or indirect taxation. In all societies, we observe that two modes of taxation coexist; each time their relative importance in total fiscal revenues varies from one country to another with in relation to the structure of taxation and the level of economic development in each country. We are going to see below that the portion of indirect taxation in total revenues of the government represents more than 64% these last two years; this profile of revenues does not conform to the situation for the industrialized countries where the portion of direct taxation is more predominant.

We are going to investigate indirect and direct taxation by revealing effects on price distortion and the choice between present consumption and future consumption (savings), emphasizing that in certain circumstances direct and indirect taxation are perfectly equivalent. This equivalence prevails when one applies a uniform level of taxation on goods and services or when one applies a direct tax that is proportional to professional income.

Indirect Taxation

In an economy where a market of goods and services is competitive, with a distribution of wealth there exists a general price level that balances the markets for goods, factors of production and the financial market. This equilibrium permits the efficient allocation of resources, but nothing assures that the resulting distribution of income is equal. We recognize however that in reality, the organization of the market is closer to oligopolistic or monopolistic models than that of perfect competition. There are therefore distortions linked to the nature of the markets but also to the distortions that are due to the system of taxation, or to the existence of certain inefficiencies in the allocation of resources.

If one does not consider the redistribution of revenues, there is reason to consider that a system of indirect taxation will be optimal if the rate applied to each category of goods is inversely proportional to the elastic price of demand for this good (Ramsey 1927). This permits one to minimize the dead weight or the degree of inefficiency introduced by the tax. For example, by virtue of this principle, the goods of primary necessity should submit to the most elevated level of taxation. This old principle of public finance has known an evolution that takes into account the interdependence of markets.

To extend this analysis to a model of general equilibrium that takes into account the sensitivity of the demand for a good to the changes in prices of other goods and also the aspect of the redistribution of income, the optimal theory of taxation suggests that the highest tax is to be levied on the goods complimentary to leisure as well as luxury goods, cigarettes, alcohol and recreational activities but also in maintaining an adequate level of taxation for goods inelastically demanded for efficiency reasons.

This optimal taxation proposition makes way for a uniform level applicable to all goods; it permits on the other hand to reduction of the critique that indirect taxation is essentially regressive and inequitable.

Direct Taxation

The theory of optimal taxation of revenues recommends that the level of taxation be linear with a level of exemption for income before subsidies. The marginal level should be low and we must emphasize that an optimal system of taxation is not conceived as an instrument for the reduction of inequalities.

The principal concern is to put in place a system of taxation that does not discourage savings and investment and does not obstruct employment offers for highly productive individuals (individuals with significant ability).

It is otherwise generally accepted that it is more efficient to operate transfers to the profits of certain beneficiaries rather than to subsidize unproductive activities to procure revenue for these same beneficiaries. This principle goes against the policy of the regionalization of certain economic activities according to the particular advantages to some enterprises to establish in certain zones (See the Burundian code of investment for the system of decentralized enterprises). This affirmation is nuanced because the private operator cannot capture the external economies that would justify indirect subsidies from the government that promote economic activities in the indicated zones.

The modern theory of optimal taxation of revenues no longer uniquely approaches the system of taxes on revenues under an angle of progressiveness of marginal levels, it also concerns itself with questions of efficiency and a lack of incentives for savings and an insufficiency of necessary investment to stimulate economic growth.

To be operational, the optimal theory of taxation emphasizes a simultaneous recourse to a system of taxation on consumption and on revenues on the whole that a choice between one or the other forms of taxation. In fact in a world where there are distortions created by the market optimal taxation on goods and services contributes to the reduction of inefficiencies and partially contributes to the financing of inferior limits not submitted to a tax on revenues to avoid that the differentiation of levels are not too progressive for high revenue categories.

Reflections on Fiscal Reform

Fiscal Efforts

The fiscal effort, measured by the degree of utilization of tax capacity, was relatively low. The ratio of fiscal revenues on the GDP represents 15% and it was in the environment of 13% between 1984 and 1987. One is not able to associate this augmentation of revenues is not due to a growth of GDP. The government made considerable efforts in the recovery of the debt and the dividends due by public enterprises. In all cases, tne ratio of 15% remained average as compared to international norms that consider 18% as perfectly acceptable. This should not in any one case be interpreted as an indication to the budgetary authority that it is still a margin for the augmentation of taxes before financing an expansion of public expenditures. This ratio indicates that outside the degree of diversion of resources to the detriment of private consumption.

The elasticity of taxation that gives a measure of the percentage of augmentation of fiscal revenues as compared to the augmentation of GDP is estimated at .75% for the modern sector. This elasticity can be augmented by an enlargement of the base and also by an amelioration of fiscal yield.

We have seen above that excessive taxation can rapidly destabilize productive capacities in weakening the economic incentives and encouraging tax evasion.

A link exists between tax evasion and heightened levels of taxation, it is necessary to adjust to the complexity of tax law as administrative procedures that increase the uncertainty of the taxpayer on the specific amounts due to the treasury. Certain public finance experts add to these factors the low salaries of government tax officials.

The fiscal pressure gives an indication of the degree of eviction of the private sector by the public sector in the utilization of resources, but this is not an appropriate indicator of the incentive effect of taxation on private investments. The analytical instrument for the impact of the system of taxation on investments is the concept of an effective level of taxation. This last one understands the average effective level and the marginal effective level of taxation. These last two parameters can be enlarged in their definition to include not only the level of imposition on professional revenues of firms but the level of real taxes (property taxes) paid by firms.

The average effective level can be defined as the ratio of total taxes paid on earnings before taxes. This method illustrates the flux of firm's revenues toward the government, and it gives a good indication of the fiscal burden but it does not give a burden of how the system of taxation is going to affect future investments.

The marginal effective rate of taxation is a better indicator of the effect of taxation on the incentives to invest, it is defined as the differential ratio between the anticipated real rate of profitability before taxes and the anticipated real level of profitability after taxes on the real anticipated level of profitability before taxes. The marginal effective rate of taxation represents the anticipated fiscal charges following additional investment.

Very little research has been undertaken to try to determine the effective level of taxation on the different industrial sectors of Burundi. A study has only just been initiated by the World Bank to evaluate the distortions that could exist on the internal profitability taxes levied on different projects in a limited number of industrial activities. The utility of such work is that it permits the orientation of potential investors towards sectors less strongly submitted to taxation, but it is also able to inspire the authorities responsible for fiscal reform to devise a strategy to reduce sectoral distortions to result in a more efficient allocation of resources.

Reinforcing the Effectiveness of Fiscal Administration

After achieving fiscal reform that must result in a simplification of fiscal legislation and a better formulation of fiscal policies, it is going to be possible organizational problems and fiscal administration procedures.

One must take into account that the concept of public interest justifies the voluntary contribution to tax that is still not a phenomenon internalized in our culture. The lack of participatory structures for the population in the elaboration of public expenditure programs is not foreign to the situation or the payment of taxes is not considered an obligation by the taxpayers. The success of fiscal policies depends on the perception of the population for their opportuneness, it is also that the expenditure programs are going to receive large support when the need and the quality of the product of the associated services of these programs are clearly justified in the eyes of the public.

In addition to the improved techniques in the management of tax declarations, the analytical procedures for records must be known by the taxpayers to reduce the element of uncertainty raising of taxes that are actually due. This will be able to improve the quality of fiscal reforms and delays in tax payments will be shortened. The reduction of civil servant discretionary power in the calculation of fiscal reforms will reduce the uncertainties in the management of the treasury of enterprises and also will contribute to the diminution of costs linked to one time corruption that the statuary tax levels will have had reduced.

Fiscal Regulations for Foreign Capital

The weakness of domestic savings obliges Burundi to have recourse to exterior savings and that is done by relatively little burdensome means of occasional concessional borrowing. Even just until the present the country had large recourse to the public debt (96% of total exterior debt), this is a means of mobilizing relatively limited resources for direst investment of foreign capital especially in the productive sectors.

The experience shows that it does not suffice to put in place a general investment code to attract foreign capital. Exchange policy can appear more important than the fiscal advantages accorded by investment codes. A certain flexibility in exchange policy can reinforce the fiscal advantages accorded by tax regulation of foreign capital revenue. The costs associated with this conduct do not appear disproportionate for the foreign exchange management needs, we know that very strict control of the exchange does not always succeed in stemming the flight of capital that can happen from the over accounting of imports or the underestimation of exports or the proliferation of a black market.

In spite of the fact that Burundi has a relatively small market, the system of capital taxation must offer a rate of profitability that is at least equal to the rate of profitability assured in the capital exporting countries. It is therefore necessary to conduct a study on the effective marginal rate of taxation to estimate the opportunity costs of capital in order to judge the necessity of reducing the statutory tax rates and the appropriate level of reductions.

The investment code should be reviewed because it contains arrangements that are not necessarily advantageous to foreign investors but are costly to the treasury. For example, to accord a grace period of no tax payments on profits is not necessarily an advantage when the repatriated profits are subject to taxes in the country of origin. The grace period can also induce investors to invest in short term projects rather than making long term investments.

Fiscal accords should be envisioned with certain capital exporting countries to favor the mobility of capital and to also assure the security of capital in the respective countries.

Conclusion

Some fiscal reform measures are in practice in the domain of professional revenue taxes as revealed in the paper presented by P. Nyamoya and J. Hakirimari of the Chamber of Commerce and Industry, the reduction of tax forks to 4 whose maximum rate will be 35% is not in the right direction. It is each time difficult to envision a reform on revenues without taking into account reforms in the domain of indirect taxation because the two should be integrated in the context of the Burundian economy.

As one will have remarked, the utilization of taxation as a means of inducing private investment or as a resource mobilization instrument to finance public expenditures, knows its limitations. The coherence of monetary policies, financial regulation, and price policies will be indispensable to create a favorable environment to economic growth and to the success of a structural adjustment program.

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