# THE CENTER FOR RESEARCH ON ECONOMIC DEVELOPMENT
# at THE UNIVERSITY OF MICHIGAN

**presents a report on the conference on**

# ECONOMIC REFORM IN AFRICA:
# LESSONS FROM CURRENT EXPERIENCE

**September 7 - 9, 1988**
**Nairobi, Kenya**

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# Economic Reform in Africa: Lessons from Current Experience

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## Preface

In September 1988, two **Seminars on Economic Reform in Africa** were held, one in Nairobi, Kenya, and one in Abidjan, Côte d'Ivoire. The seminars were organized by the Center for Research on Economic Development (CRED) of the University of Michigan, with financial support from the United States Agency for International Development (USAID). In Nairobi, the Macro-Economic Consortium for Eastern and Southern Africa provided informal support to CRED. In Abidjan, the Ivorian Center for Economic and Social Research (CIRES) co-sponsored the seminar.

These seminars were designed to allow senior African economic policy administators and analysts to assess and compare economic liberalization and policy reforms which have been implemented in Africa in recent years. The goal was to give direction to policy-makers as they face subsequent phases in the policy reform process. The seminars were also designed to encourage open and honest discussion between African officials and those from international donor agencies.

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

The Center for Research on Economic Development is indebted to a range of individuals and institutions for their support in successfully undertaking this project. At USAID headquarters in Washington, Alan Batchelder and Jerry Wolgin provided continual support. Youssouf Sylla of the Economic Development Institute (EDI) of the World Bank provided background case-study material as well as suggestions drawn from EDI's own experience in policy seminars.

In Nairobi, the support of Leo Mureithi, University of Nairobi, Michael Chege, Ford Foundation, and Jeffrey Fine, Macro-Economic Consortium, were crucial to our success. The USAID regional office and Kenya mission provided logistical assistance. We are especially grateful to Ambassor Elinor Constable for her personal interest and participation in the seminar. Mrs. Kay Day tied all of the loose strings together.

In Abidjan, Kouadio Yao and Bakayoko Adama of CIRES were directly involved in all phases of planning and implementing the project. The staff of the regional USAID mission provided very able and active support to our efforts. We were particularly pleased that Ambassador Dennis Kux not only opened the seminar, but hosted all of the participants at a reception at his residence. The World Bank regional mission, and its director Elkyn Chaparro, provided the seminar facilities. Suzan Cioffi of Intermanagement provided logistical support in several phases of the Abidjan seminar. We also thank the African Development Bank for their interest and support.

At CRED, Christine Elias and Anne Hudon took responsibility for the very complex set of logistical arrangements which the project entailed. Jennifer Walrad and Cathy Warner provided the support work; Susan Johnson managed the budget. We are especially indebted to Anne Hudon for editing this final report.

Ernest J. Wilson, III
Director, CRED

David F. Gordon
Project Director

Ann Arbor, Michigan
December, 1988

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## List of Acronyms

| | |
|---|---|
| ADB | African Development Bank (Banque Africaine de Développement) |
| CEAO | Communauté Economique de l'Afrique de l'Ouest |
| CRED | Center for Research on Economic Development, The University of Michigan |
| CIRES | Centre Ivoirien de Recherches Economiques et Sociales, The University of Abidjan |
| ERP | Economic Reform Program |
| GDP | Gross Domestic Product |
| IBRD | International Bank for Reconstruction and Development (World Bank) |
| IMF | International Monetary Fund |
| LDC | Less developed country |
| OAU | Organization of African Unity |
| OECD | Organization for Economic Cooperation and Development |
| UNDP | United Nations Development Programme |
| USAID | United States Agency for International Development |

## List of Participants: Nairobi

| Participant | Affiliation |
|---|---|
| Baldwin R.C. Banks | Liberia, Executive Director, Economic Financial Management Committee |
| Mohamed Hassan Barre | Somalia, Vice Minister of Finance |
| Alan Batchelder | U.S., USAID/Washington |
| Robert H. Bates | U.S., Duke University |
| Robert Burke | U.S., USAID/Nairobi |
| Michael Chege | Kenya, University of Nairobi; Ford Foundation |
| David Chitundu | Zambia, Deputy Director of Research, Bank of Zambia |
| Elinor Constable | U.S. Ambassador to Kenya |
| Lual A. Deng | African Development Bank |
| Jeffrey Fine | Canada, Project Director, Macro-Economic Consortium |
| Lucy Fye | The Gambia, Senior Economist |
| David F. Gordon | U.S., Project Director, Center for Research on Economic Development, University of Michigan |
| Christopher Kassami | Uganda, Chief Planning Economist, Ministry of Planning and Economic Development |
| Wina Kawana | Zambia, Deputy Secretary, Cabinet Office |
| Chief Omowale Kuye | Nigeria, Secretary General, Privatization, Cabinet Office, |
| G. Maipose | Zambia, University of Zambia |
| James W. Mehn | Liberia |

| Participant | Affiliation |
|---|---|
| W.D.S. Mmbaga | Tanzania, Registrar, Institute of Development Management; Board Member, Board of External Trade; Economic Advisor, National Executive Committee |
| Harris Mule | Kenya, Former Minister of Finance; Consultant to UNDP |
| Leopold Mureithi | Kenya, University of Nairobi |
| Simon Ndirangu | Kenya, Ministry of Planning and National Development |
| Reid L. Ntokoane | Lesotho, Principal Secretary of Agriculture |
| E. Ochieng | Uganda, Chairman of the Department of Economics, Makerere University |
| Philip Quarcoo | Ghana, Institut pour le Développement Economique et la Planification, Dakar |
| Molelekeng Rapolaki | Lesotho, Director of Economic Policy, Ministry of Planning, Employment and Manpower |
| Dani Rodrik | U.S., Harvard University |
| Monica Sinding | U.S., USAID/Nairobi |
| Thuso N. Thokoa | Lesotho, Deputy Principal Secretary, Ministry of Finance |
| Michael D. Titoe | Liberia, Deputy Minister of Finance for Administration |
| Kiert Toh | U.S., USAID/Kenya |
| Ernest J. Wilson, III | U.S., Director, Center for Research on Economic Development, University of Michigan |
| Jerry Wolgin | U.S., USAID/Washington |
| Al Haji Hamza Zayyad | Nigeria, Chairman, Privatization Committee |

## List of Participants: Abidjan

| Participant | Affiliation |
|---|---|
| Adama Bakayoko | Côte d'Ivoire, Doyen de la Faculté des sciences économiques, University of Abidjan |
| Amadou Sara Bah | Guinée, Economist, USAID/Conakry |
| Alan Batchelder | U.S., USAID/Washington |
| Robert H. Bates | U.S., Professor, Duke University |
| Elkyn Chaparro | BIRD, Regional Representative of the World Bank |
| Youssoufa Cissé | Burkina Faso, Chef de Division, Coopération douanière et statistiques de la CEAO |
| Joao Julio Corréia | Guinée Bissau, Directeur B.E., Ministère du Plan |
| Adolphe Danvide | Bénin, Directeur Général Ministère de la Justice, chargé de l'Inspection des entreprises publiques et semi-publiques |
| Lual A. Deng | ADB, Economist |
| Mamadou Diop | Sénégal, Conseiller technique du Ministre des finances |
| Arthur Fell | U.S., Director, USAID/REDSO |
| Victor Fidalgo | Cap-Vert, Conseiller du Ministère des finances |
| Emmanuel Forestier | IBRD, Economist |
| Richard Fraenkel | U.S., Economist, USAID/REDSO |
| Hafez Ghanem | IBRD, Economist |
| Valentin Glele-AH. | CEAO-CRIC, Directeur du Projet CRIC-CEAO |

| Participant | Affiliation |
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| David F. Gordon | U.S., Projet Director, CRED, University of Michigan |
| Howard Handler | U.S., Deputy Director, USAID/REDSO |
| Mahamadou Idrissa | Niger, Secrétaire Général, Ministère du commerce |
| Henri Josserand | U.S., Economist, CRED, University of Michigan |
| Neyram Ketevi | Togo, Directeur de la Planification Ministère du plan |
| Abdoulaye Koita | Mali, Conseiller technique, Ministère des finances et du commerce |
| Brigitte Kongo | Burkina Faso, Directeur Général du Commerce extérieur |
| Yao Kouadio | Côte d'Ivoire, Director, CIRES, University of Abidjan |
| Yao Kouamé | Côte d'Ivoire, Conseiller technique, Ministère d'Etat IX |
| Dennis Kux | U.S., Ambassador to Côte d'Ivoire |
| Bubacar Ly | Guinée Bissau, Directeur Général Trésor |
| Simon Mamba à N'Yar | Cameroun, Directeur Adjoint, Dette publique, Ministère des finances |
| Bawa Mankoubi | Togo, Directeur Général, Ministère de l'économie et des finances |
| Lame-Teze Mujinga | Zaïre, Conseiller aux questions monétaires |
| Lapup-Tier Munkeni | Zaïre, Conseiller Economique auprès du Premier Ministre |
| Jean-Marc Oyono | Cameroun, Secrétaire Général au MINPAT |
| Abdoulkarim Paraiso | Niger, Secrétaire Général, Ministère des finances |

| Participant | Affiliation |
|---|---|
| Daniel Ramarokoto | Madagascar, Secrétaire Général, Ministère de l'Agriculture |
| Dani Rodrik | U.S., Professor, Harvard University |
| G. Fidèle Sarassoro | Côte d'Ivoire, Economist, USAID/REDSO |
| Hinsalbet G. Sobdibet | Tchad, Economist gestionnaire, Ministère du commerce et de l'industrie |
| Crescend Solofonirana | Madagascar, Secrétaire Général, Ministère des finances |
| Yerbanga Somanogdo | Burkina Faso, Conseiller des affaires économiques, Gestion des entreprises |
| Emmanuel Tetegan | African Development Bank |
| Mamadou Touré | Sénégal, Ex-Ministre des finances; Economist |
| Lassana Traoré | Mali, Economist; Directeur, Bureau des entreprises publiques |
| Ernest J. Wilson, III | U.S., Director, CRED, University of Michigan |
| Salifou Zouma | Niger, Secrétaire Général Adjoint, Ministère du plan |

Summary of Proceedings

Nairobi, Kenya September 7 – 9, 1988
Abidjan, Côte d'Ivoire September 13 – 15, 1988

David F. Gordon

Project Director

Center for Research on Economic Development
The University of Michigan

**Nairobi Conference**

The Seminar on Economic Reform in Africa was convened on the morning of September 8, 1988, at the Safari Hotel conference center in the outskirts of Nairobi, Kenya. Professor David Gordon of the Center for Research on Economic Development (CRED), the project director, was in the chair. There were delegates in attendance from twelve different nations, representing West, East, Central and Southern Africa. In addition, observers were present from USAID, the World Bank, the Ford Foundation, and other international agencies.

CRED Director Ernest Wilson opened the substantive portion of the program with a discussion of the global imperatives for adjustment. Professor Wilson discussed the ubiquity of economic reform in the current historical context, and described some of the more noteworthy reform exercises including 'perestroika' in the USSR and the 'four modernizations' in the Peoples Republic of China. He described CRED's current research project on economic reform in capitalist and socialist nations, and described some of the tentative findings explaining why reform has been so widespread.

Dr. Lual Deng, African Development Bank (ADB), then presented the main points of his overview paper on adjustment in Africa. Deng concentrated, in his remarks, on the importance of appropriately sequencing the Economic Reform Program (ERP). Deng emphasized his view that stabilization, in general, was a prior task to that of adjustment. He argued against 'policy–overload' in the early phases of the ERP by suggesting that growth–oriented adjustment policies only be introduced gradually, until the basic demand–side stabilization measures had begun to take effect. Deng also emphasized that unless institutional development occurred concomitant with structural changes in the economy, the reform process was unlikely to be sustainable. The general thrust of Deng's presentation was optimistic, despite the limited results of the ERP so far. From his personal experience with ADB programs in the Gambia and Nigeria and his assessment of 12 additional cases, he felt that the ERP, if implemented, would work and would create a momentum to be sustainable. He concluded by stressing the need for donors to respect the sovereignty of African countries in the adjustment process. He also emphasized the ADB's commitment to economic reform and to enhancing its own role in the adjustment process.

A spirited discussion followed the two initial presentations, with a number of participants expressing more critical comments about the adjustment process than either Wilson or Deng suggested. Among the key points made were, first, that the emphasis on devaluation within the stabilization phase was creating severe hardships for consumers and might not generate the supply response expected from producers. A second point concerned the beneficiaries of adjustment, with several speakers challenging Deng's assertion that the rural areas, broadly speaking, were benefitting from and responding positively to the changed circumstances. The broad thrust of the discussion, however, suggested that the range of country adjustment experiences in Africa might be too broad to be successfully encompassed in Deng's model of phases and instruments.

After the coffee and tea break, Professor Dani Rodrik, Harvard University, summarized his paper on trade policy issues facing sub-Saharan Africa. Rodrik started from the notion that appropriate trade policy is not determined by the external trade environment. Rodrik challenged the conventional wisdom that trade liberalization has a major role to play in reducing external imbalances in a stabilization program. Nevertheless, he argued, there is a good case for trade policy reform deriving from its role in reducing domestic imbalances, especially budget deficits, and in stabilizing the general incentives for producers. Specifically, he said that devaluation will have greater benefits in rationalizing domestic resource allocation than it will in reducing deficits on the current account of the balance of payments. Rodrik made a particularly strong case for replacing quantitative restrictions with tariffs as a means of transferring to the government budget rents which were accruing to the private sector. Rodrik concluded by stressing the need for credibility, transparence and predictability in trade policy. The stability of incentives, he stated, is more important than the particular structure of incentives.

Much of the discussion focussed on Rodrik's downplaying of the importance of the external environment in determining trade policy. A number of participants worried that competitive devaluation in Africa, by increasing the volume of exports, would drive down the price and thus reduce any benefits which might accrue from export promotion. Others responded that, in the absence of improved export incentives, Africa would continue to lose market share in its traditional exports. Further discussion also ensued on the issue of the relative importance of domestic vs. external imbalances in a stabilization program. The discussion was quite lively when time constraints forced us to end the morning session.

The luncheon featured the keynote address by Harris Mule, former permanent secretary in the Ministry of Finance in Kenya, the chief architect of the Kenyan structural adjustment program and currently the chairman of the Advisory Board of the Macro-Economic Consortium. Mule was introduced by the U.S. Ambassador to Kenya, Elinor Constable. Ambassador Constable, in her introduction, stressed the importance of a non-confrontational policy dialogue and reiterated Dr. Deng's plea for respecting national sovereignty in Africa. She asserted that promoting the kind of dialogue generated at the seminar should be a priority for U.S. policy in Africa. Mule's address also picked up on some of the themes in Deng's paper. He traced the origins of the crisis in Africa and the responses to it, both by the international community and by African governments themselves. He felt that it was important to not equate structural adjustment with development. Rather, adjustment is the precondition for recreating a development dynamic on the continent. The challenge in looking forward, Mule stated, is to generate creative visions and policies which can drive African development into the next century. In this task, the fundamental responsibility lies with Africans, but the international community can play a significant facilitating role.

The afternoon session featured three very able presentations of country case studies of adjustment. Simon Ndirangu, a senior official in the Kenyan Ministry of Planning and National Development, described the reform initiatives undertaken in Kenya. Ndirangu's comments substantially echoed the themes of the morning's meeting described above. Ndirangu emphasized Kenya's success in maintaining a realistic exchange rate which has led the shilling to become a region-wide hard currency. He also described the role of government policy in promoting agricultural production.

Al Haji Hamza Zayyad, newly-appointed chairman of the Nigerian Privatization Panel, discussed the Nigerian experience. He located Nigeria's structural problem in the large run-up in the public sector which was fuelled by the two oil price hikes. During this period, the public sector crowded out the private sector. With the drop in oil prices in the early 1980s, government revenues fell precipitously, generating the crisis. Adjustment was ad hoc and uncoordinated until mid-1986 when the government introduced the Structural Adjustment Programme (SAP). SAP involved three major reforms and a host of minor ones. The major reforms have been a sharp devaluation of the Naira, abolition of the agricultural marketing board system and liberalization of import licensing. There has also been some price decontrol and early efforts at privatization. Hamza felt that the overall results have been mixed;

that the pace of reform has been too rapid; and that some reforms have been overdone, especially the devaluation of the Naira. His main conclusion, however, was that the Nigerian government has oversold the SAP, creating unrealistic expectations which it cannot fulfill.

Philip Quarcoo, a Ghanaian representing the Institut pour le Développement Economique et la Planification in Dakar, presented the Ghana case experience. He discussed the long run-down of the Ghanaian economy, which by 1983 had bottomed out with industrial output at less than 20% of capacity, dramatic shifts from the formal to the informal sector, and a 2000% black market premium for foreign exchange. The centerpiece of the early phase of the Economic Reform Program (ERP) was the creation of a foreign exchange auction system which allowed the Cedi to fall to a realistc level. Particularly in the context of the simultaneous over-valuation of the CFA franc in neighboring countries, this reform energized economic activity and almost immediately began to reverse the negative trends in virtually all of the key economic indicators.

The most recent innovation in the Ghanaian adjustment program is the donor-supported 'adjustment with a human face' experiment, which specfically targets vulnerable groups in society, in a range of projects intended to counter the negative consequences of adjustment. Quarcoo described the program as an attempt to marry some of the 'basic human needs' themes of donor-supported programs of the 1970s with the adjustment themes of such programs in the 1980s.

A lively debate followed the three presentations, with a great deal of attention being paid to the actual impact of the adjustment programs in the three countries and to the issue of devaluation and exchange rate mechanisms. Of the three cases, the Nigerian was by far the most controversial. Even the Nigerian representatives themselves could not agree on how to assess the SAP.

The discussion again highlighted the very disparate set of adjustment experiences in Africa. In Kenya, it appears that sharp negative external shocks were met by an already flexible domestic policy environment, leading to an adjustment program articulated in terms of continuity with long-standing policies. In Nigeria, the oil price hikes — a positive external shock — set in motion events which made that country highly vulnerable to downturn. Policy responses were a sharp shift from existing practices, but in a context in which the basic functioning of the economy had continued. In Ghana, on the other hand, economic decline appears to have been largely self-inflicted and very severe. The adjustment program was less politically sensitive given that the 'official' economy had virtually ceased to function.

The second day of the conference was largely devoted to simultaneous panels on selected aspects of economic reform and liberalization. Conference participants chose to attend one of two panels offered during each time period. Three sets of two panels were held. In the early morning time period, panels were held on exchange rate management and on streamlining the public service.

Dr. Jeffrey Fine, Project Director for the Macro-Economic Consortium, chaired the panel on exchange rate issues. Fine attempted to direct the discussion to longer-range issues concerning the optimal exchange rate management system for sub-Saharan African states, and how transitions to such systems might be shaped. There was a very lively debate, both on these issues, and on the more short-term question of the extent and pacing of devaluation efforts. Country experiences contrasting inter-bank systems, auctions, crawling pegs, and other mechanisms for managing the exchange rate were discussed. Much debate centered on the role of the exchange rate in a stabilization program and on the danger of 'overloading' this one instrument. No consensus was reached on the question of the optimal exchange rate system, although the discussion did suggest some of the attributes of such a system: credibility, flexibility and sustainability.

Dr. Michael Chege, Ford Foundation and University of Nairobi, chaired the panel on streamlining the public service. In his introductory remarks, Chege stressed the importance of decentralizing the delivery and the planning of public service provision, the need for improved management techniques within the public sector, and the need for far greater coordination within government. He then discussed the recent experience of Kenya in addressing these issues, emphasizing the success of the transition to 'District Focus' in rural development planning. Much of the discussion focussed on the mechanisms of downsizing the public service. Questions arose on how to prevent ex-civil servants from re-entering other units of government, how to minimize the political costs of retrenchment, and how to ease the entry of former civil servants into the private sector. Much of the discussion focussed on the Liberian experiences on these issues.

During the second half of the morning, concurrent panels were held on the topics of budget and fiscal management, and agricultural pricing and marketing. Professor Leo Mureithi, University of Nairobi, chaired the panel on budget and fiscal issues. In his opening remarks, Mureithi stressed the centrality of reducing budgetary deficits to the adjustment process. The discussion focussed on the following topics: fiscal management, especially the need to coordinate between Treasury and the line ministries; budget flexibility, especially the issue of how much uncertainty to build into budgetary projections; expenditure reduction, especially in regard to cost recovery schemes and revenue sharing schemes with public enterprises; and revenue generation, especially the design of more effective and efficient taxation systems. Different country experiences in all of these issues were discussed in the course of the panel. Participants agreed that these were the toughest and the most crucial issues which need to be addressed in African adjustment.

Professor David Gordon, CRED, chaired the panel on agricultural pricing and marketing. Gordon presented the competing perspectives on the relative role of policy variables in explaining Africa's poor agricultural performance in the past twenty years. He raised the following questions about the role of agricultural policy in adjustment: Will continent-wide export promotion swamp the market for traditional exports, driving down revenues; or will it generate new export outlets to ease the balance-of-payments pressures? What are the taxation effects of agricultural price policy reforms? Have traders exploited policy reforms to garner the bulk of the benefits? The discussion focussed on the experiences of a number of countries in agricultural pricing and marketing reform. There did not seem to be any real consensus on the issues raised by the chair. The panel concluded by discussing the role of agricultural research in the forthcoming period.

At the luncheon session, Professor Robert Bates, Duke University, presented the main points of the paper which he prepared for the seminar. The crux of Bates' argument was that even if African leaders were convinced by technical arguments that widespread economic reform should be undertaken, they would be unable and unwilling to do so for a number of political reasons. These concerned the nature of the political coalitions which support most African governments, the ideological predilections of virtually all African political parties and movements, and the entrenched interests of the politicians and bureaucrats themselves. Bates went on to challenge the view that liberalization and economic reform are aimed at decreasing the effectiveness of the state. Rather, he suggested, such reforms are designed to enhance the influence of the state by restoring its financial viability and popular credibility. In general, Bates was dubious about the long-term impact of policy reform in Africa.

In the discussion which followed, some participants cited examples which seemed to uphold Bates' argument, while others suggested that, while conveying part of the picture, Bates' conclusions were overly pessimistic and do not seem to successfully account for the extensive reform processes which have been implemented in some countries. It was suggested that a similar scenario could have been constructed for some of the Asian NICs a generation ago. Bates concluded the discussion by going part of the way to meet his critics, but emphasizing the importance of viewing the adjustment process in micro-political as well as macroeconomic terms.

In the afternoon, the final set of concurrent panels was held. These focussed on the social impact of adjustment, and on privatization and public enterprise reform. Professor Gordon chaired the panel on the social impact of adjustment. Gordon presented some preliminary hypotheses on the differential impact of adjustment programs on different social sectors. He then outlined the 'adjustment with a human face' approach of limiting the stabilization phase in the reform process, maintaining the social infrastructure and protecting the poor from bearing the brunt of the impact of adjustment. Gordon concluded by emphasizing the difficulty of separating out the impact of recession and the impact of adjustment. Several participants emphasized the burdens which adjustment placed on certain groups, especially public sector employees and the urban poor. Two contrasting approaches to this problem were discussed. The first, supported by the World Bank, USAID and others, emphasized the maintenance of budgetary support for key social service ministries and efforts at equitable cost recovery programs. The second, supported by UNICEF and other organizations, emphasized targeting project activities towards vulnerable groups. The PAMSCAD program in Ghana is the first large-scale effort to apply the latter approach.

Professor Wilson chaired the session on privatization and public enterprise reform. In his detailed introduction, Wilson began with an overview of the experiences in Africa on this issue. He stressed that public enterprise reform has been far more extensive than privatization, but that there were a number of competing approaches to each. Wilson then went on to detail some of the mechanisms of both privatization and public enterprise reform. The discussion which followed gave participants the opportunity to discuss the varied approaches to this issue among the governments represented at the seminar. One issue was the distinction between the case-by-case approach to public enterprise reform, versus efforts to radically shift the rules affecting the relation between the public enterprises and the government, especially in terms of lessening privileged access to budgetary funds and foreign exchange. The discussion then turned to privatization strategies, especially the importance of matching particular policy instruments to specific privatization goals.

The seminar concluded with a plenary session which brought the entire group together to review reports from the different panels and to discuss general issues. Rapporteurs from each of the panels summarized the issues which were raised in the discussions, providing a useful recapitulation of the range of topics covered by the seminar. The participants expressed thanks at being given the opportunity to share experiences in policy reform and liberalization across countries. In closing, Professor Wilson commended the group for the high level of the discussions, noting that there had been very little gratuitous rhetoric during the entire proceedings. He again reiterated the seriousness of the topic and expressed his desire that these kinds of exchanges should be maintained, either formally or informally.

**Abidjan Conference**

A parallel seminar was held for francophone Africa in Abidjan, Côte d'Ivoire. The following is a summary of the proceedings for that seminar.

The Seminar on Economic Reform in Africa was convened on the morning of September 13, 1988, at the World Bank regional mission conference room in Abidjan, Côte d'Ivoire. The Director of the Centre Ivcirien de Recherches Economiques et Sociales (CIRES), Dr. Yao Kouadio, was in the chair. U.S. Ambassador to the Côte d'Ivoire Dennis Kux presented the opening address; he was joined at the head table by the World Bank Regional Representative in West Africa, Elkyn Chaparro, and REDSO/WCA Director Arthur Fell. There were delegates in attendance from thirteen Francophone African countries. There were also representatives from a range of donor agencies and international organizations.

The first substantive session of the seminar featured Professor Ernest Wilson, CRED Director, and Dr. Lual Deng, African Development Bank, presenting an overview of adjustment and economic reform. Wilson examined economic reform as a global phenomenon, and Deng looked at the experiences in Africa and key issues in designing reform programs. Wilson stressed the global nature of economic reform and its contemporary manifestations in a wide range of countries. He described CRED's research project on economic reform in capitalist and socialist economies and some of the early findings. Deng presented the main theses of his overview paper on economic reform in Africa. He emphasized the importance of effective sequencing of stabilization and adjustment efforts and expressed optimism on both the commitment of African governments to reform and on the ultimate success of the Economic Reform Program (ERP).

In the discussion following the two presentations, seminar participants expressed a range of views about adjustment experiences in their own countries. Most agreed with the main points made by both Wilson and Deng. Many of the participants raised a series of very difficult issues which they felt were likely to limit the success of adjustment efforts, especially very poor international market conditions. At least one participant appeared to challenge the basic desirablility and viability of economic reform.

After the morning coffee and tea break, Professor Robert Bates, Duke University, summarized his paper on the political economy of policy reform in Africa. Bates presented his thesis that African governments, even if intellectually committed to economic reform, would be politically incapable of implementing serious reform. Bates' sharp presentation was designed to engage discussion on the question of the relation between economic reform and political interests. Several elements in the Francophone countries, including the CFA monetary arrangement, make them less obviously amenable to Bates' model. Nevertheless, a number of the participants echoed the themes of Bates' remarks in talking about the political difficulty of reform and suggesting that the international agencies might be asking impossible tasks of them. There was a dichotomy in the interpretations given to the implications of the Bates thesis. While many of the African participants appeared to feel that the implication was to soften conditionality and expect less in economic reform, the participants from the donor community appeared to feel that the implication was that policy-based lending was a risky enterprise altogether. Bates himself did not address the question of implications.

The luncheon speaker on the first day of the seminar was Emmanuel Tetegan, Director of the Infrastructure and Industry Department of the African Development Bank (ADB). Tetegan began by stating that it was impossible to separate Africa's adjustment issues from the negative economic shocks which have battered the continent since the mid-1970s. He then discussed the necessity for major reforms and expressed support for the significant changes already undertaken in many countries. He said that the ADB will increasingly focus its own activities on policy-based lending in support of adjustment efforts.

Tetegan described some of the specific themes which the ADB stresses in approaching adjustment. These basically echoed World Bank and International Monetary Fund analyses on issues such as inflation, budget deficits, interest rates, the need for financial intermediation, appropriate exchange rates, reform of public enterprises, etc. The final section of the talk argued that two aspects of the international economic environment were hindering African adjustment efforts, namely the deteriorating terms of trade and the lack of decisive action to lower the debt service burden. He concluded by linking adjustment efforts with longer-term goals of industrialization and increasing self-sufficiency.

In the afternoon, the participants divided into two groups for the first set of concurrent panels. The topics were exchange rate management and reform of the public sector. The panel on exchange rate management was chaired by Dr. Adama Bakayoko, CIRES and the Department of Economics at the University of Abidjan. Bakayoko discussed the negative impact of an overvalued exchange rate on the export sector and asked the participants to compare the experiences of countries within the CFA zone with those outside of it. The discussion was heated and wide-ranging. Several participants argued that the focus on the export sector was inappropriate; that the effect of an overvalued exchange rate ramified across the entire economy. Others felt that too much emphasis had been put on the exchange rate as a single instrument. The discussion had a bifurcated quality to it, with one set of issues for the CFA zone countries and a quite different set of issues for the non-CFA countries. There was no real consensus on the issue of CFA overvaluation, nor, among those who felt that the CFA was substantially overvalued, what the most effective policy option would be.

Professor Wilson chaired the panel on reforming the public sector. He posed the dilemma for governments of needing to cut back expenditures on the public sector while at the same time realizing that public sector wages are insufficient to retain the best personnel at all levels of the public service with different training and background. This basic dilemma is reinforced by the need to improve the output of the public sector. Participants in the discussion picked up on these opening themes to discuss the experiences of their governments in approaching the problem. Much of the discussion focussed on the issue of what happens to those civil servants let go by the government. Also addressed was the comparison between personnel retrenchment in the public service and in the public enterprises. There was debate on the likelihood of the private sector's being able to absorb retrenched civil servants, and on the different incentive strategies which governments might undertake to ease the problem.

The first day of the seminar concluded with a general examination of the issues raised in the debates. Discussion continued on the themes which were raised in the concurrent panels, especially the issue of exchange rate and trade policy issues. CRED organizers were impressed with the range of country experiences as described by the African participants.

The second day of the seminar commenced with Professor Dani Rodrik, Harvard University, presenting a summary of his paper on trade policy issues. Rodrik asserted that an appropriate trade policy is not determined by the external trade environment and expressed skepticism about the likelihood of trade policy reform's substantially affecting external imbalances in the short term. Nonetheless, he stated, trade policy reform is potentially useful for reducing fiscal deficits and stabilizing incentives for producers. The discussion picked up on Rodrik's contention that the deteriorating external environment, while having an overall negative impact on African economies, should play no role in determining a country's trade policy. While some of the contributors to the discussion did not get beyond this theme, several participants discussed the issues raised in Rodrik's paper concerning the sequencing of stabilization, adjustment and trade policy reform, particularly his notion of its role in revenue enhancement and deficit reduction.

After the morning coffee and tea break, the second round of concurrent panels was held. The topics were agricultural pricing and marketing, and budget and fiscal policy. Dr. Henri Josserand, CRED, chaired the panel on agricultural pricing and marketing. In his introduction, Josserand presented the four goals of agricultural policy reform: to stabilize crop prices between seasons and between years, to raise revenues for producers, to protect the consumption of vulnerable groups and to maintain emergency food supplies. Country experiences of recent policy innovations took up the bulk of the discussion. The ups and downs of policy reform in Zaire were assessed. The liberalization of agricultural marketing in Mali was debated, as were important changes in policy regarding pricing and marketing of rice in Madagascar. The panel also debated the limits of policy reform as an instrument for improving agricultural production. Consensus was reached on the fact that policy reforms need to be combined with improved research, diversified production, improved infrastructure and new financial intermediaries if they are to have their full effect.

Dr. Yao Kouadio , Director of CIRES, chaired the panel on budget and fiscal policy issues. He initiated the discussion by addressing the central role of fiscal deficits in macroeconomic disequilibiria. He then went on to explain the concomitant centrality of reducing the budgetary deficit in a stabilization program. The mechanisms of how this was to be accomplished comprised the second part of the presentation. Finally, Kouadio explored the interconnections between the budget deficit, the trade deficits and the exchange rate. The discussion following his presentation ranged across all of these areas. Participants basically agreed with Kouadio's premise on the importance of fiscal issues and gave examples of experiences in these issues within their respective countries. Emphasis was put on effective prioritization in the budget process and on the need for revenues to go to fulfilling projects in the pipeline and rehabilitation of key infrastructure.

The keynote address was presented at the luncheon session. The speaker was Mamoudou Touré, former Finance Minister of Senegal and one of Africa's leading economic analysts. Touré, in a wide-ranging prepared speech of nearly one hour, surveyed the entire map of Africa's economic crisis. After stressing the very severe external circumstances which African nations have faced since the 1970s, and the limited response of the international community, Touré emphasized the fundamental responsibility of African governments in the reform process. He stated that, given the scope of the changes which will be necessary, bluntness and realism will be needed to progress. Economic reform cannot be seen as merely a technical exercise. Rather, it will necessitate the firmest convictions on the part of the political authorities.

Touré argued that the role of the international community would be crucial in either facilitating or blocking successful change. The international community has three roles to play: first, to reduce the burden of debt-service; second, to facilitate the expansion of African trade by maintaining open markets and opposing protectionism; and third, to maintain a constructive dialogue on economic reform. He congratulated the organizers of the seminar for undertaking to promote a non-confrontational form of exchange of views which emphasized sharing of experiences among African economic policy-makers.

The final afternoon of the seminar commenced with the last set of concurrent panels, focussing on the topics of privatization and public enterprise reform, and the social impact of adjustment. Dr. Adama Bakayoko chaired the panel on the social impact of adjustment. He began the discussion by suggesting that the social impact of adjustment was determined by the specific social structure of particular countries, and that generalizations were likely to be misleading. He then discussed research currently being undertaken in the Côte d'Ivoire on differential urban-rural impact, the initial findings of which tend to run counter to conventional wisdom on the subject. The discussion addressed both this issue and some of the questions of the appropriate policy responses to undesirable trends. There was interest in what the distinctive features of 'adjustment with a human face' would be.

Professor Wilson chaired the panel on privatization and public enterprise reform. He began the discussion by reviewing the experiences of the 1980s in Africa and outlining the different approaches to the issues. Generally, participants expressed skepticism about the overall merits of privatization. The discussion was more about the plusses and minuses of undertaking privatization and less about the technicalities involved in the process.

The seminar concluded with a final plenary session in which rapporteurs reported on each of the concurrent panels, and a brief discussion ensued on the overall direction of the seminar. Professor Wilson spoke of the very high level of the discussions and the seriousness with which the participants went about their task. He especially thanked both the World Bank and REDSO for their support in undertaking the project. The participants, for their part, thanked the organizers for bringing together officials from so many countries to discuss issues of importance to all of Africa. They expressed the desire that more of these types of meetings be convened.

# The Global Imperatives of Economic Reform in Africa

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The governments of Africa are facing unprecedented global economic challenges which are leading many to reform their local political economies. If their national responses to these challenges are unique, it is nonetheless the case that the "structural adjustments" of Africa have their counterparts elsewhere. To understand the nature of the challenges which Africa faces, and the range of options open to African governments, we should begin by analysing the global trend toward economic reform.

The following discussion draws on work underway in a faculty research project at the Center for Research on Economic Development of the University of Michigan, entitled "Economic Reform in Socialist and Capitalist Societies."

Economic reform is dubbed "Structural adjustment program" in Nigeria or Tanzania; "perestroika" in the U.S.S.R.; "doi moi" in Vietnam; "popular capitalism" in Great Britain. Although the reforms go by different names, they share a few common features. By economic reform we mean a significant movement by governments to expand the use of market signals in shaping production and distribution, and the reduction of direct state ownership and direct state controls over the economy. Typically, these governmental reforms occur across several important sectors and include changes in the degree of state ownership and regulation, in pricing, personnel and other management decisions at the firm level. In addition, these reforms typically cut across several levels of administrative and political hierarchies.

These big policy changes seem to be occuring in nearly every geographic area and in every kind of economic system. We see them in industrialized capitalist countries like France under the Socialists, and in Britain under the Conservatives. Japan has reduced the role of its powerful trade ministry, MITI, and has deregulated its telecommunications and financial sectors.

Changes occur in socialist countries too. In addition to 'perestroika' and 'doi moi', communist China's own reforms regularly make front page news around the world. Government policies of deregulation, de-monopolization and privatization affect millions of people, millions of hectares, and thousands of state enterprises.

Developing countries like Indonesia, Malaysia, and Mexico are also taking big steps to reform economic decision making and economic authority relations in their economies.

Nor are the reforms limited solely to the public sector. In the private sector too there are unprecedented restructurings, with enormous increases in the number and the scale of mergers and acquisitions.

The global incidence of these reforms suggests that the changes which we are seeing today in African countries are not isolated events. Nor can we say with certainty that all the reforms are caused by the same factors — whether the International Monetary Fund (IMF) or the debt crisis. What are the likely causes of these changes we see in Africa and elsewhere? It is likely that different kinds of countries have different mixes of causes, but certainly they will include the ones identified below.

One dynamic and broad-gauged factor is the rising and falling of the international business cycle. Economic reform may be associated with the downturn of the business cycle. Slower economic growth worldwide reduces government revenues from taxation (especially if, as in Africa, government relies heavily on taxes levied on exported primary commodities to pay its bills.) Lower revenues reduce government's capacity to continue to subsidize money-losing publically-owned companies (also called parastatals or public enterprises). Second, lower or stagnant growth greatly increases competition among exporters for market share, and some countries shut down inefficient state enterprises in order to enhance their international competitiveness.

Economic reform may also be prompted in Africa, as elsewhere, by changing levels of capital availability. Foreign direct investment has sharply declined recently, as has new bank lending. The debt crisis places a tremendous burden on LDC public sectors who are often forced to choose between loan repayments on the one hand, and domestic consumption or investment on the other. Forced to choose, some governments have tried to squeeze domestic spending through reforms, in order to free up capital for loan repayments. Technological innovations accelerating capital movements around the globe may also accelerate the rate of reform, as countries compete for scarce investment and loans.

Beyond the business cycle or capital availability, another likely source of economic reform is the strategy of the multilateral institutions like the World Bank and the International Monetary Fund. Certainly these agencies have played a big part, especially in Africa, to press economic reforms on reluctant governments. In Asia, however, the Bank or Fund play only limited roles in reform.

Finally, there is ample evidence that local populations in industrialized and developing countries do rebel against inefficiencies and inequities in government economic policies (just as they reply to inequities in the market). There appears to be ample domestic support for many of these reforms, and farmers and others (businessmen, for example) may respond quickly and effectively to the new economic policies. We also see populist leaders like Jerry Rawlings seizing the initiative to gain political support. Economic reform, in other words, has a big political component.

What tentative lessons can we draw from our research into the global imperatives of economic reform? While our research is still preliminary, we can identify several important themes.

First, economic reform is indeed a global phenomenon. Similar kinds of market-oriented policies are appearing in a very diverse universe of countries. Second, the adaptations to the new conditions are unique. No two national programs of economic reform are identical. The pace, scope and instruments of reform reflect basic political, social and economic differences in countries. Third, programs of economic reform require a judicious mix of technical, institutional and political innovation if they are to succeed. Strong leadership from the top is an essential ingredient of success. Economic reform is more of an art than a science. Fourth, the process of reform is a long-term process, not one which is done in one swoop. The most difficult challenge is to sustain the process. Finally, the reform process entails both economic and political losses and gains. Often there are real and projected economic efficiency gains in the future, but very real political costs in the present.

If these preliminary findings are true, they suggest that African governments must become much more strategic in their attitudes toward reform. It is not sufficient to reform just because the IMF says one must. Instead, governments should reform because, if they do not, then other countries will steal away even more of their already modest market shares. The standard of living may deteriorate as a result. Nigeria discovered this with Malaysia in the international palm oil market; the Ivoirians are discovering this with their toe-to-toe competition with the Malaysians in the cocoa industry.

Our research suggests that the imperatives to reform are indeed global, even though each individual African government must respond to these universal challenges in its own unique way. But the choice is not whether to adapt or not; it is, rather, when, how, and on what terms will one adapt.

# Economic Recovery Program: An Overview of the Adjustment Experiences in Africa in the 1980s*

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The views expressed in this paper are those of the author and do not necessarily reflect the views of the African Development Bank.

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> The effect of the unfulfilled promises of global development strategies has been more sharply felt in Africa than in the other continents of the world. Indeed, rather than result in an improvement in the economic situation of the continent, successive strategies have made the continent stagnate and become more susceptible than other regions to the economic and social crisis suffered by the industrialized countries. Faced with this situation and determined to undertake measures for the basic restructuring of the economic base of our continent, we resolved to adopt a far reaching regional approach based primarily on collective self-reliance.
>
> Preamble, The Lagos Plan of Action (1980)[1]

## I. Introduction

The above citation provides a point of departure for an overview of the adjustment experience within the framework of the Economic Recovery Program (ERP) for Africa in the 1980s. It is an acknowledged fact that the basic causes of Africa's economic problems are multivariate — incompatible development strategies, the rise in oil prices, world recession, drought, structural imbalances, and inappropriate macroeconomic policies. However, this paper assigns more weight to the role of policy in the continent's development crisis of the 1980s. That is, the central thesis of this paper is that Africa's present development problems are the result of the inability of various national governments to transform the structure of their economies in a changing international economic environment. This is on the argument that African governments have not put in place a consistent set of policy tools to deal with the crisis at its very early stages.[2]

This paper utilizes a schematic model to analyze economic recovery programs[3] during Africa's adjustment experiences of the 1980s. A brief review of the main causes of African economic problems is given in section II. This is followed by a presentation of the schematic model in section III. The response to

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[1] Lagos Plan of Action for Economic Development of Africa, 1980-2000. Organization of African Unity (OAU), 1980.

[2] In the literature of African economic development, more emphasis has been laid on internal factors. This author takes a balanced approach, i.e. focusing on both external and internal elements with a view to examining their effect on African economies.

[3] I claim no oringinality for this schematic model. Its elements are all contained in the current ERP. The sequencing of policies through a multi-period approach is a new and important feature of my model.

policy reform measures adopted by twenty-eight different African economies is examined in section IV, followed by a conclusion in section V.

## II. Elements of African Development Problems

In examining the causes of the African development crisis, I will first describe the structure and characteristics of African economies. When most of the African states attained their political independence in the early 1960s, they inherited economies which were, generally speaking, transitional, open, small and dependent on the production of raw materials. They were transitional in that more than 75% of the population lived on subsistence agriculture. Open, because of their participation in international trade. Small in economic terms, because of their low income levels and their limited resource base. Moreover, these economies were and still are dependent on primary goods for their export earnings.

These characteristics give a certain uniformity of structure to African economies. Hence, for the purpose of analysis and following Jaime de Melo and Sherman Robinson (1982), one may subject African economies to identical external shocks and policy reform measures. While there may be structural diversity in the economies (Taylor, 1983) and cultural pluralism in the politics (Young, 1982) of African nations, the current Economic Recovery Programs (ERP) assume identical constraints and hence, prescribe similar policy choices for these economies (see Table 1). In addition, the Lagos Plan of Action advocates a general development strategy that would enable the continent to face external factors. In this respect, three waves of exogenous factors can be identified as the most important external elements contributing to the African development crisis of this decade.

The first wave of external factors is associated with the successive development strategies that were applied to the post-independence economies of Africa. These strategies sought to apply linear development models that were incompatible with African economic structure(s) and institutions. Furthermore, these strategies were influenced by global schools of thought[4] — modernization, dependency, basic needs, growth with equity, appropriate and intermediate technology, etc. — which failed to examine the nature and characteristics of the

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[4]See for instance: W.W. Rostow (1962), The Stages of Economic Growth: A Non-Communist Manifesto. Cambridge University Press; A. Gunder Frank (1966), "The Development of Underdevelopment," Monthly Review, Vol. 18, No. 4; and Samir Amin (1976), Unequal Development: An Essay on the Social Formation of Peripheral Capitalism. New York: Monthly Review Press.

**Table 1**

**List of Countries Undertaking ERP According to Per Capita GNP (1986 data)***

| Category A1 | Category A2 | Category B | Category C |
|---|---|---|---|
| 1. Benin | 1. Ghana | 1. Côte d'Ivoire | 1. Congo |
| 2. Burundi | 2. Mauritania | 2. Morocco | 2. Gabon |
| 3. CAR** | 3. Senegal | 3. Nigeria | 3. Tunisia |
| 4. Chad | | | |
| 5. Gambia, The | | | |
| 6. Guinea | | | |
| 7. Guinea Bissau | | | |
| 8. Kenya | | | |
| 9. Madagascar | | | |
| 10. Malawi | | | |
| 11. Mali | | | |
| 12. Mozambique | | | |
| 13. Niger | | | |
| 14. Sao Tome & Principe | | | |
| 15. Somalia | | | |
| 16. Tanzania | | | |
| 17. Togo | | | |
| 18. Uganda | | | |
| 19. Zaire | | | |
| 20. Zambia | | | |

Category A1 with per capita ≤350
Category A2 with per capita >350 & ≤510
Category B with per capita >510 & ≤990
Category C with per capita >990

* ADB/World Bank Classification (figures in U.S. $)
** Central Africa Republic.

African state and the dynamism of public policies that stem from it (Deng and Mou, 1985). Thus, the role of the African state as a macro-political player in the development process was marginalized and greatly undermined as the continent became an ideological battleground.

The second wave of exogenous shocks that hit most of the African economies, is essentially connected with the oil crisis of the 1970s and the subsequent world recessions. This hurt the African states, in particular the non-oil producers, in three ways:

a) Africa found itself paying more for its imports as a direct result of rising oil prices. In addition, most of the African countries were unable to curb the rapidly growing domestic demand, particularly in view of the inelastic demand for imports;

b) Recession in the world economy led to a downturn in the demand for the primary products that Africa exports. Hence, the ability of the African economies to earn foreign exchange through exports was greatly reduced;

c) Given the rising cost of imports and falling foreign exchange earnings from exports, African economies should have adjusted, other things being equal, to reduce the balance of payments disequilibria. However, other things were not equal. Paradoxically, with easier access to foreign capital through the availability of the petrodollar, Africa was lured into borrowing from various international sources (bilateral and multilateral) to finance the rising cost of imports. At the same time, as Bela Balassa (1983) shows, increases in the export prices of some primary commodities, e.g. coffee and cocoa, offset the negative effect of high oil prices. Thus, the negative consequences of the second wave of external shocks were minimized, or even temporarily averted, through the recycling of petrodollars. In this way, most economies continued to grow, albeit somewhat more slowly than in the 1960s (see Table 2).

Table 2

**Growth Rates In Real Gross Domestic Product (GDP)**
**For 28 African Countries**
**With Economic Reform Programs**

| COUNTRY | 1965-73 | 1974-85 | 1986-87 |
|---|---|---|---|
| 1. Burundi | 4.8 | 3.6 | 3.3 |
| 2. Central Africa Republic | 2.7 | 0.7 | 1.0 |
| 3. Chad | 0.5 | -5.8 | 2.3 |
| 4. Congo | 6.8 | 8.1 | -1.5 |
| 5. Côte d'Ivoire | 7.3 | 3.7 | 2.4 |
| 6. Gabon | - | 2.2 | -1.2 |
| 7. Gambia,The | 4.5 | 1.9 | 5.8 |
| 8. Ghana | 3.4 | 0.9 | 5.0 |
| 9. Guinea | 3.0 | 3.1 | 4.2 |
| 10. Guinea Bissau | - | 1.6 | 3.2 |
| 11. Kenya | 7.9 | 4.4 | 3.5 |
| 12. Madagascar | 3.5 | 0.3 | 2.5 |
| 13. Malawi | 5.7 | 3.3 | 2.4 |
| 14. Mali | 3.1 | 4.1 | 3.5 |
| 15. Mauritania | 2.6 | 2.3 | 3.6 |
| 16. Morocco | 5.7 | 4.5 | 3.9 |
| 17. Mozambique | - | -5.2 | -7.7 |
| 18. Niger | -0.8 | 5.2 | 1.0 |
| 19. Nigeria | 9.7 | 0.8 | -1.0 |
| 20. Sao Tome & Principe | - | -2.1 | 3.0 |
| 21. Senegal | 1.5 | 2.6 | 2.2 |
| 22. Somalia | 1.2 | 2.8 | 1.0 |
| 23. Tanzania | 5.0 | 2.6 | 4.2 |
| 24. Togo | 5.3 | 2.3 | -0.7 |
| 25. Tunisia | 6.9 | 5.5 | 2.0 |
| 26. Uganda | 3.6 | -1.3 | 1.0 |
| 27. Zaire | 3.9 | -1.0 | 2.7 |
| 28. Zambia | 2.4 | 0.4 | 0.5 |
| Group Average | 4.2 | 1.8 | 1.9 |

Source: From Selected Statistics on Regional Member Countries. The ADB, 1987 & 1988 and estimates by the author.

The third wave of external shocks in the 1980's was, however, very powerful both in magnitude and in intensity. African economies, constrained by the lack of foreign exchange, were already operating below capacity and under the stress of earlier shocks. The third wave consisted of three main elements: rising oil prices, the Sahelian drought, and the higher cost of external borrowing. The hike in world oil prices in 1980 triggered stagflation in most of the countries of the Organization for Economic Cooperation and Development (OECD). This situation led to world recession with the subsequent downturn in demand for crude oil and primary commodities. At this time, African economies were severely hit by both climatic and financial droughts.[5]

In addition to the above mentioned external shocks, there were also internal elements that contributed to the economic difficulties of the 1980s. Among these endogenous factors are the imbalances in the structures of production, price, employment, and ownership. These structural imbalances imposed institutional constraints on the market which was therefore unable to send correct signals to the various economic agents in the economy. The inability of market forces to convey appropriate messages to the economy is largely related to what the International Monetary Fund (IMF) calls "policy-related distortions — arising from price controls, exchange and trade restrictions, overvalued exchange rates, and official ceilings on interest rates" (IMF, 1987).

This situation came about in Africa when the state ceased to function as an organ of economic policy, and began to operate as an instrument of administrative planning, thereby leading to a "policed economy" exemplified by numerous market boards and parastatal bodies. These have plagued most of the African economies during the 1970s. In a "policed economy", the function of resource allocation is performed neither by price-mechanism as in free market economies, nor by a central planning agency as in economies that are centrally managed. Rather, resource allocation in a "policed economy" is performed by an administrative rationing mechanism. While price and domestic credit control, exchange and import restrictions have been seen as a rational response to temporary balance of payments difficulties, as in the cases of Kenya and Tanzania for instance (Rwegasira, 1987), these measures tend to become institutionalized with time and have a negative effect on growth in the longer term.

The interaction of these exogenous and endogenous factors on African economies, has produced a severe situation characterized by worsening terms of trade, acute shortages of foreign exchange, chronic financial and balance of payments difficulties, and the inability to service external debt. Furthermore, African governments have had no consistent set of policy tools in place to deal with

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[5]As used by Mr. Richard Jolly of UNICEF in his lecture on "Adjustment with A Human Face," at the Headquarters of the African Development Bank, April 1987.

the worsening situation, with the result that domestic consumption, and particularly government expenditures, have proved difficult to restrain.

Therefore, while the particular features of the African development crisis are many, its underlying causes are two: external factors beyond the control of African states and internal structural imbalances which are indeed within their capacity to overcome. Thus, this paper emphasizes the importance of internalizing macroeconomic policies as a starting point for African governments to achieve growth and stability in the long run.

## III. Analysis of the African Economic Recovery Program (ERP)

### A. Historical Background

Students of African economic history will always remember 1985 as the year in which African leaders made a real attempt to face their public responsibilities forthrightly. This desire was articulated by President Abdou Diouf of Senegal at the 21st Organization of African Unity (OAU) summit when he quoted Frantz Fanon as follows: "What is at stake is our credibility in the face of history. Each generation must discover its mission and either fulfill or betray it."[6] That is, most of the African leaders recognized by mid-1985 that Africa must internalize its economic policies and find a development path capable of leading African peoples out of the economic crisis. In this regard, it is important to state that a sizeable number of African countries has since then adopted far reaching measures aimed at overcoming the rapidly deteriorating external debt situation and revitalizing the economy. Toward this end, twenty-eight African countries, accounting for about 75% of the total African population, are implementing comprehensive Economic Recovery Programs (ERPs) at considerable political and social cost. These programs are a necessary though not sufficient condition for African recovery.

A steady and uninterrupted flow of external resources from bilateral and multilateral donors are among the sufficient conditions for an African economic

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[6]Excerpts from a speech delivered at the OAU 21st Summit by President Abdou Diouf of Senegal. Africa Economic Digest (AED), Vol. 6, No. 30, 27 July – 2 August, 1985.

recovery. Consistent with this line of thinking, Elliot Berg[7] argued for policy reform by stating that

> Reformers, both external and domestic, may claim credit for these kinds of reforms, but many of them represent no more than a response by African Governments to one compelling reality: economies cannot consume more resources than they produce, borrow or are given. In this sense reform has a logic of its own, internally inspired. (1986:5)

The compelling reality in the above citation — that every country must match its domestic absorption expenditures to its productive capacity — is one of the fundamental propositions in economics (Grubel,1981). Failure to observe this proposition leads to macroeconomic disequilibria, i.e. internal and/or external imbalances. For the sake of simplicity, internal balance means that the domestic economy is at full-employment level, while external balance means that the trade balance is at equilibrium. This proposition was apparently disregarded during the 1970s as capital flows from foreign borrowing made it possible to overcome, without a major adjustment, the discrepancy between absorptive and productive capacities. In retrospect, it would seem to me that most of the African countries borrowed in most instances to finance consumption spending instead of productive domestic investment. This of necessity led to an increase in imports while domestic output stagnated or even declined. The consequence was a deepening of internal and external imbalances.

By mid-1985 African policy-makers had seen the writing on the wall. Continued financing of current account deficits indefinitely was not possible. African creditworthiness and the flow of aid disbursements needed to be restored through bold economic decisions. Thus, Economic Recovery Programs (ERPs) were the only viable alternative for Africa.

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[7]For more on this, see Elliot Berg, "Policy Reform in Africa: Some Misconceptions," Statement prepared for presentation before the subcommittee on International Development Institutions and Finance of the Committee on Banking, Finance and Urban Affairs, United States House of Representatives. Washington, D.C. (August, 1986), p. 5. Berg lists five of what he calls misconceptions in the current debate as follows: a) without outside pressure there would be little or no propensity to reform; b) reform means mainly "getting prices right"; c) reforms can be introduced quickly and will have relatively quick results; d) heavy explicit conditionality is the way to accelerate reform; and e) demand management is an inappropriate instrument for bringing about structural adjustment.

B. The Model

ERP within the African context is understood in this paper to mean a comprehensive strategy combining demand-management measures and structural adjustment policies in a single program aimed at overcoming major imbalances in the economy through a multistage approach. The schematic model presented here underlines the sequencing of policies as a feasible way of achieving sustainable growth at minimal political and social cost. It would also lead to a clear division of labor within the donor community, especially between the IMF and the multilateral financial institutions such as the World Bank and the African Development Bank (ADB). Integrating stabilization and structural adjustment programs into a single comprehensive ERP would assign to the IMF to what it does best — the design and implementation of stabilization measures — while leaving the banks and bilateral donors to design and implement growth-oriented policies.

The sequencing of policies within ERP is based on the prioritization of policy targets over the program period. Stability is to be achieved first, followed by adjustment measures. It is not feasible to adjust an unstable system. The sequencing of policies avoids possible conflicts between the differing objectives of stabilization and adjustment programs. Conventional stabilization programs emphasize the reduction of current account deficits, while adjustment programs aim at the expansion of output. Since a majority of African states import capital, a simultaneous expansion of their output and reduction of their current account deficits may not be feasible. Furthermore, the importance of sequencing stabilization and adjustment measures is that it facilitates a gradual as well as an orderly reform that is socially acceptable and thus politically viable.

In this respect, a schematic model for the African Economic Recovery Program is presented below.

## Schematic Model of the African ERP

| Period/Phase | Objective | Targets | Instrument* |
|---|---|---|---|
| 1. Short term (0–2 years) | To restore economic equilibria | Elimination of exchange & price distortions<br><br>Financial & balance of payments stabilization<br><br>Curtailment and rationalization of over-extended public sector | Stabilization measures |
| 2. Medium term (2–4 years) | To achieve a more efficient allocation of resources<br><br>To expand the productive capacity of the economy | Elimination of structural imbalances<br><br>Maximum expansion of output<br><br>High productivity of investment<br><br>Improved macro-economic management<br><br>Promotion of competitive markets<br><br>Promotion of indigenous entrepreneurship | Adjustment measures |
| 3. Long term (>4 years) | Sustainable growth | Stable levels of employment, income, and price<br><br>Elimination of arrears on external debt<br><br>Development-oriented educational system<br><br>Development of a viable infrastructure<br><br>Active participation of the private sector in the economy | Combination of stabilization and adjustment measures in a relatively competitive environment |

*These instruments are not necessarily mutually exclusive.

Short term

The realization of the short term targets envisaged above depends on carrying out a number of reform measures in the following five key areas:

a) exchange rate and pricing policies;

b) monetary and credit policies;

c) financial sector rehabilitation;

d) trade liberalization; and

e) public administration reform and fiscal policy.

It must be pointed out here that the immediate objective of ERP in the short run is the restoration of macroeconomic equilibria through stabilization measures that focus mainly on expenditure switching and expenditure reducing policies. Here, traditional demand-management measures (e.g. fiscal and monetary) are used to enforce discipline on an economy which is out of balance. These measures are supplemented by limited supply-side policies to remove exchange rate and price distortions. Therefore, the preoccupation of policy-makers during the first phase of ERP is how to restore stability to the economy through the use of appropriate monetary and fiscal policies. That is, the growth of real output in the short run should not be the focus of economic policy per se, on the argument that a distorted economy needs first to be brought back to normal through stringent monetary and fiscal policies.

The IMF has begun to recognize the importance of sequencing of policies as illustrated by the following:

> A fundamental objective of a Fund-supported adjustment program is to provide for an orderly adjustment of both macroeconomic and structural imbalances so as to foster economic growth while bringing about a balance of payments position that is sustainable in the medium term. (1987:1)

However, as long as five years ago, the importance of sequencing was recognized by Williamson (1983) when he argued:

> External balance, interpreted as a current account balance calculated to maximize welfare in the light of national thrift and productivity, and foreign borrowing and lending opportunities, should be a high priority but a medium-term objective. (1983:139)

However, according to Mundell (1968), and Genberg and Swoboda (1987) the conflict between internal and external balances arises because of an assignment problem. That is, the conflict results from an inappropriate policy mix. In a world of imperfect information such as Africa, Mundell's solution assigns, under a fixed exchange rate regime, monetary policy to combat the current account imbalances, and fiscal instruments to restore internal balances. But with a flexible exchange rate regime, Genberg and Swoboda (1987) have found that "fiscal policy has comparative advantage in dealing with the current account, monetary policy with internal balance, and that this assignment will be stable for the case of a single small open economy." Hence, in the event of a current account deficit, reducing government spending will be the most appropriate policy instrument to correct the external imbalance. Similarly, in a situation of internal imbalance characterized by a low level of domestic output relative to aggregate demand, increasing the money stock to enhance the productive capacity of the economy will be the best policy instrument.

The nature of this overview does not permit me to provide technical details and analysis of the assumptions underlying Mundell's and Genberg-Swoboda's solutions to the conflict between internal and external balances, to the extent that the main points of each solution have not been presented systematically. Notwithstanding this shortcoming and given the present state of our empirical knowledge about the African economic policy reform program, I would think that there are two main issues involved here. The first issue concerns the conflict of objectives arising when the policy target is to achieve internal and external balances simultaneously (Khan, 1987). Alternatively, the conflict arises when stabilization and adjustment programs are implemented as two separate programs. In either case, the sequencing of policies within the framework of ERP seems to be the most viable solution. The second issue relates to the assignment problem, which I consider to be more problematic than the question of timing referred to earlier. The assignment problem, since it concerns the appropriateness of policy instruments, arises at all times and in all circumstances.

Thus, the critical point during the first phase (short term) of ERP is how to assign appropriate policy instruments (e.g. monetary and fiscal) to their respective targets. Failure to provide an appropriate assignment of policies in pursuit of short term targets could render the objective of macroeconomic balance unattainable. In this regard, Genberg and Swoboda (1987) think that the breakdown of the Bretton Woods System in 1972, "can be attributed not only to a shortage of instruments but also to an inappropriate assignment (under fixed exchange rates) of monetary policy to the pursuit of internal balance." Accordingly, the assignment problem should, therefore, be crucial when evaluating the performance of the African economies under ERP. That is, to what extent can the program's success or failure be explained by an appropriate or inappropriate assignment of policy instruments to their respective targets?

Medium term

In the absence of major distortions and structural constraints, the economy is assumed, theoretically, to have an automatic tendency to move toward complete equilibrium in the following markets: the domestic goods market, the money market, and the foreign exchange market. And in the event of macroeconomic disequilibria, the economy is expected to arrive at equilibrium through an automatic adjustment mechanism: producers and consumers switching their expenditures in reaction to changes in relative prices. Moreover, macroeconomic policies that were already in place, if consistent, facilitate a cost-effective adjustment process. Any persistence in macroeconomic disequilibria is therefore attributable to government policies that prevent the adjustment mechanism from correcting the imbalances.

In this regard, the adjustment mechanism will be assumed to operate in the medium-to-longer term only after the structural constraints have been removed. Hence, the objective of ERP in the medium term is to expand the productive capacity of the economy through the use of adjustment measures that constitute what is popularly known as the Structural Adjustment Program (SAP). A typical SAP, in addition to consolidating reforms implemented during the short term period, centers on five key areas of reform that are usually of a supply-side nature. The five areas are:

a) agricultural policy;

b) incentive for other productive sectors;

c) public enterprise reform;

d) public investment programming; and

e) management of external debt.

Long term

During this period, the market forces of supply and demand will answer, through a dynamic adjustment process, the following four basic economic questions:

a) what to produce?

b) how to produce?

c) who will produce?

d) who will consume the product?

That is, correct signals of what consumers desire will be translated by producers into economic goods through the price-mechanism. At the highest level of abstraction, Adam Smith's "invisible hand" would create automatic (dynamic) adjustments that cause prices to move toward their equilibrium values with consumers willing to pay for the products, and producers ready to sell them. As new patterns of consumption and life-style determine what is to be produced, an economy without distortions would normally react by producing the desired products. This implies that industries (firms), publicly or privately owned, would have to adjust to the new consumers' taste by producing the new products, and those firms that do not adjust will give way to new ones. In this way, the process of adjustment becomes dynamic and thus the rationale for the Economic Recovery Program. In addition, the adjustment process requires that government perform an explicit role in the economy as an organ of economic policy focusing on the five main functions below:[8]

a) provision of legal, social, and business environments for a stable growth of the economy;

b) promotion of competitive markets;

c) reallocation of resources in order to maintain efficiency in the economy when the price-mechanism fails to send correct signals to both consumers and producers;

d) stabilization of employment, income, and prices; and

e) redistribution of income and wealth in an equitable manner (this is of recent emphasis, and it is problematic).

Thus, the stabilization and structural adjustment policies of the IMF, the World Bank, and now the ADB draw upon the basic principles of the free market economic model. Price is the parameter of these policies, and everything else is assumed to adjust to the price level. A combination of classical and neoclassical principles is at

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[8]See any textbook on intermediate or introductory macroeconomics.

play here, i.e. Say's Law,[9] coupled with flexible wages, prices, and interest rates on the one hand, and on the other with individual behavior to maximize profit or utility. These form the basis of the free market development model prescribed by the IMF and the World Bank. The success of an African ERP will, therefore, very much depend on how social and political institutions in Africa adjust to the new institutions of a free market economy. This model of development assumes, of course, that appropriate institutions for the stable growth of a free market economy do indeed exist, or can be established.

## IV. Evaluation of Performance

There is no agreed methodology for assessing economic policy reform programs within the framework of a developing economy. Loxely (1988), following Guitian (1981) and Williamson (1983), has however singled out four methodologies as the most relevant:

1. Evaluating the performances of the economy under a structural adjustment program relative to the past performance of the economy before the program was introduced;
2. Evaluating the performance of the economy relative to specific targets or specific objectives set out at the beginning of the program;
3. Evaluating the performance of the economy under a structural adjustment program relative to what that performance might have been in the absence of the program; and
4. Evaluating the performance of the economy under a structural adjustment program relative to the performance of other economies with or without programs of their own (1988:18).

Following Loxely (1988), the first two methodologies will be used in this paper. In addition, the evaluation of performance will cover the extent to which reform measures have been carried out and whether policy instruments have been appropriately assigned to their respective targets. This should not imply that policy is the only determinant of growth; there are other factors, e.g. good weather. So, these three approaches will constitute the basis for evaluating the performance of the African economies that are implementing ERPs. This approach should make

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[9]Named after the nineteenth century French economist Jean Baptiste Say, who hypothesized that "supply creates its own demand."

both African governments and the donor community (especially the IMF, the World Bank, and the ADB) share the credit or blame for the program's success or failure. Williamson (1983) has argued against this approach on the grounds that it "contains a systematic bias unfavorable" to the IMF. The focus of this overview is not to evaluate the IMF program per se, but rather ERP in general.

A word of caution is called for at this point. It is premature to evaluate the overall performance of African economies at this point in time. This is on the argument that implementation of ERP for these countries only began during the second half of 1985. What follows in the subsequent paragraphs, then, is basically a mid-term review of the performance of these economies over the initial phase of ERP, i.e. during the short term period (1985/86 - 1987/88). The analysis is also limited by possible lags in the response of policy targets to reform measures. Martin and Selowsky (1984) have concluded that "it takes time for production processes to be restructured, consumption habits to be changed and factors to move."

## A. Evaluation of Performance: The Indicators Approach

The indicators approach is basically a crude method of assessing the performance of an economy within the context of ERP. Here, the six key macroeconomic indicators referred to below are used to measure the effectiveness of ERP over a five-year period (1983-87). That is, the pre-ERP period (1983-84) is compared with the first phase (1986-87) of ERP in determining the success or failure of the program. This is done only for the twelve countries that adopted comprehensive economic reforms in mid-1985. No attempt is made in this paper to assess policy efficiency for the other eight countries (Côte d'Ivoire, Ghana, Kenya, Madagascar, Malawi, Mauritius, Senegal, and Togo). These countries began the reform process in the early part of the 1980s with a much less comprehensive program compared with ERPs. In addition, programs for most of these economies have been, to a large extent, evaluated by Green (1983), Killick (1983, 1984), Berg (1985), Rwegasira (1987), and Loxely (1988). The six key macroeconomic indicators are given below.

Table 3

Performance of 12 African Economies
According to Key Macroeconomic Indicators
during 1983-84 and 1986-87

| Indicator | Performance of the Economy* | | | |
|---|---|---|---|---|
| | Impro | Not Impro | No Chan. | ND |
| 1. Real GDP (growth rate) | 9 | 0 | 0 | 3 |
| 2. Gross Investment/GDP | 7 | 1 | 0 | 4 |
| 3. Current Account deficit | 2 | 8 | 0 | 2 |
| 4. Current Acc. Def./GDP | 4 | 5 | 0 | 3 |
| 5. Budget Deficit/GDP | 6 | 0 | 0 | 6 |
| 6. Export Growth(%) | 5 | 5 | 0 | 2 |

*Impro = Improved, Chan. = Change, ND = No Data.

In comparing six macroeconomic indicators (see Table 3) over a five year-period for the twelve African economies that have been implementing comprehensive economic recovery programs since mid-1985, it was found that the growth rates in real GDP have improved under the program for all the countries in which data was available. There were also improvements in fiscal deficit reductions and gross capital formations. All the countries for which data was available succeeded in reducing their budget deficits. There was no improvement, however, with respect to the current account deficits (see section B below). Hence, it would seem that the improvements in some macroeconomic aggregates — GDP, budget deficit, and gross investment — illustrate the point that these economies have responded positively to improved climatic conditions and the new policy environment brought about by ERP.

B. Evaluation of Performance: The Target-Instrument Approach

Following the tradition of policy mix literature, and in particular Tinbergen's rule, I have identified seven pairs of targets and their corresponding policy instruments. The seven policy instruments are assigned to specific targets which are achievable in the short run, and the results compared for those countries where data is available. The pairing of targets and instruments is as follows:

| Target | Policy Instrument |
| --- | --- |
| 1. Elimination of exchange rate distortions | 1. Devaluation of local currency |
| 2. Elimination of price distortions | 2. Price decontrol |
| 3. Curtailment of overextended public sector | 3. Retrenchment of redundant government employees |
| 4. Trade liberalization | 4. Removal of export & import restrictions |
| 5. Rehabilitation of financial sector | 5. Deregulation of financial sector |
| 6. Reduction of current account deficits | 6. Reduction of government expenditures |
| 7. Containment of inflation | 7. Tight money |

Needless to say, some of the targets (e.g. reduced current account deficits) can be achieved through a combination of several policy instruments. Similarly, policy instruments can be assigned to more than one target. The next task is to examine briefly each pair with a view to assessing economic performance within the framework of ERP.

1. Elimination of Exchange Rate Distortions

Efficiency in both the allocation and utilization of scarce resources is crucial to the success of the stabilization program, i.e. the first phase of ERP. Hence, measures aimed at improving efficient allocation of resources are usually taken up front. That is, the removal of exchange rate and price distortions should be seen as a precondition to the stabilization program. This is because correct signals are not usually transmitted smoothly when there are major distortions in the economy. For instance, in the case of an overvalued currency resulting mainly from inappropriate exchange rate policies, expenditure switching measures normally fail to achieve their targets. This is explained by the fact that relative prices no longer act as the most appropriate vehicle through which incentives are conveyed to various economic agents in the economy. The elimination of exchange rate distortions is, therefore, one of the primary objectives of ERP in the short run. The policy instrument for achieving this objective is usually a devaluation of the overvalued local currency.

This is also the most controversial policy instrument, especially from the perspective of African governments.

Here, it is appropriate to point out that devaluation as a policy instrument would not have been necessary if the exchange rate regimes for most of the African economies were functioning smoothly. In this regard, devaluation as a policy instrument was not applied in the case of ten countries that were members of a currency union.[10] For the remaining group of countries (18), the degree of success in eliminating distortions varies according to the exchange rate regimes. By way of illustration, I have classified these countries into two main categories according to the exchange rate arrangements — fixed and floating systems. The free floating system is further divided into two subgroups: the interbank market and the auction system. The exchange regimes are given in Table 4 below.

Table 4

**Classification of 18 African Economies According to Exchange Rate Regimes**

| Floating System | | Fixed System |
|---|---|---|
| Interbank | Auction | (Pegged to one or a basket of currencies) |
| 1. The Gambia | 1. Ghana | 1. Kenya |
| 2. Guinea Bissau | 2. Guinea | 2. Madagascar |
| 3. Zaire | 3. Nigeria | 3. Malawi |
| | 4. Uganda | 4. Mauritania |
| | 5. Zambia | 5. Morocco |
| | | 6. Mozambique |
| | | 7. Somalia |
| | | 8. Sao Tome & Principe |
| | | 9. Tanzania |
| | | 10. Tunisia |

[10]The countries are Benin, Central Africa Republic, Chad, Congo, Côte d'Ivoire, Gabon, Mali, Niger, Senegal, and Togo.

Most of the countries with flexible exchange rate regimes have succeeded (except Zambia) in eliminating distortions in the foreign exchange markets. This is particularly true for those countries with the interbank market system which is operated by commercial banks and licensed foreign exchange dealers. In the case of The Gambia for instance, a floating exchange rate was introduced in January, 1986 when the Dalasi was permitted to float in an interbank arrangement. Since then, the market rate for the Dalasi has fluctuated within narrow margins, and at the end of June, 1988 it was D6.45 for the U.S. dollar compared with the pre-float rate of D3.55 for a U.S. dollar. In this way, the gap between the interbank and parallel market rates has been narrowed significantly if not totally eliminated.

The evidence is weak, however, for the subgroup using the auction system. Although by mid-1988 the auction system had led to a drastic depreciation of currencies in Ghana (3,000%), in Guinea (1,100%), and in Nigeria (300%), the demand still exceeded supply in the weekly (or fortnightly in Nigeria) auctions of foreign exchange (see Annex 1). In this way many economic agents are forced to turn to the parallel market. This raises two issues: the possible lack of confidence in the new system on the one hand and the probability of institutional inefficiency on the other hand. The latter has led Rwegasira (1984) to recommend that "devaluation must be made in an atmosphere of adequate institutional efficiency." Against this, however, the IMF seems to feel that the auction arrangement has a built-in institutional efficiency which gives monetary authorities the power to control the system. Thus, "receipts from specified exports and services are surrendered to the central bank at the prevailing exchange rate and auctioned by the authorities on a regular basis," (IMF, 1987). This, I would argue, is the root of the problem. Economic agents do not have confidence in the seemingly "visible hand" of government in the allocation of foreign exchange resources. And in the light of institutional inefficiency, many people will be ready to conduct their transactions in the parallel market, thus leaving little, if any to be auctioned by the authorities as evidenced by the case of Zambia.

Loxely (1988) and Young (1988) have shown in their studies of Ghana and Zambia respectively, that the auction system succeeded initially in narrowing the differential between the parallel market and official exchange rates. This differential has, however, widened with the passage of time and the reduced resources being auctioned by monetary authorities. This situation holds for all five countries operating under the auction system. In this regard, Zambia has abandoned the auction system and ERP, while Uganda continues its ERP but has abandoned the auction in favor of periodic devaluations. Ghana and Nigeria have recently moved toward legalizing the parallel markets for foreign exchange by allowing them to operate as autonomous sources of scarce "hard" currencies. It should be pointed out, however, that the majority of parastatals which are required to obtain their own foreign exchange are not normally cost-conscious, and to this extent they are ready to purchase foreign currencies at higher prices. This in turn contributes to widening the gap between the autonomous market and official exchange rates. Hence, it can be concluded at this point that the auction system subcategory of countries with free floating exchange rates has not succeeded in eliminating distortions in the foreign currency market, though appropriate measures were taken.

Turning to the group of countries operating the fixed exchange rate regime, it is observed that six of them — Kenya, Madagascar, Malawi, Morocco, Sao Tome and Principe, and Tunisia — are maintaining relatively stable as well as less distorted foreign exchange systems. The currencies of this group are either pegged to a single currency such as the U.S. dollar or to a basket of several convertible ("hard") foreign currencies. Here, each country adjusts its exchange rate on a daily basis against the currency to which it is pegged. For the six countries of this group mentioned above, devaluation as a policy instrument is basically used to bring about external balance. Other things being equal, devaluation induces expenditure switching from imports to domestically produced goods and services. This will in turn stimulate domestic production. In this way, devaluation can reduce the current account deficit by restraining the import component of aggregate demand and at the same time by increasing domestic output and exports. This feature has distributive consequences. The urban groups, especially the wage earners and the import-substitution industries, are usually hurt by devaluation, while the export-oriented firms and the rural groups, farmers in particular, normally benefit from depreciation of local currency. It is obvious, therefore, why devaluation as a policy instrument is often resisted vigorously by the urban groups.

A final point regarding the group of countries with fixed exchange rate regimes is that four countries — Mauritania, Mozambique, Somalia, and Tanzania — have not yet succeeded in reducing exchange rate distortions, and to this extent they may have to take additional measures aimed at the relaxation of regulatory mechanisms in the foreign exchange sector. In this regard, Mozambique has recently devalued its currency (the Metical=Mt) for the second time this year, following a devaluation in January 1988, of approximately 1,000%, that is from Mt39 for the U.S. dollar to Mt450 for the dollar.

2. Elimination of Price Distortions

With the exception of Somalia and Zambia, all the countries implementing ERP have succeeded in liberalizing their price systems. Zambia initially decontrolled its price system, but returned to the control mechanism and discontinued the implementation of ERP. In majority of the countries, all prices were decontrolled with the exception of few key commodities or products, such as groundnuts and cotton in The Gambia, rice and fuel in Guinea, cocoa in Ghana, Côte d'Ivoire, and Togo, coffee in Uganda, etc. For most of these commodities, a system of preplanting announcements of producer prices was adopted.

In the case of Ghana, for example, the farmers' share of the cocoa price (f.o.b.) was by mid–1987 increased from 28% to 43%. In addition, most of the producer and consumer subsidies were eliminated in the majority of countries, so that all prices were adjusted to reflect the pass–through effects of local currency devaluations. As expected, the liberalization of the pricing system resulted in sharp increases in the rates of inflation from single to double digits.

Although price decontrol as a policy instrument has generated some inflationary pressures, it has succeeded beyond doubt in stimulating growth in the agricultural sector. Heinemann (1988) has recently shown that supply response to price incentives in sub–Saharan Africa is not weak as the literature tends to suggest. He concluded his assessment of the impact of the agricultural policy reforms as follows:

> The evidence available so far does appear to indicate that those countries which have implemented policy reforms have seen increased growth rates in the agricultural sector. There is nothing very astonishing in this — all we have done is to reinvent the wheel by showing that an increase in price has led to an increase in supply. (1988:9)

Thus, the elimination of distortions that were obstacles to the smooth functioning of the price mechanism has been one of the major achievements of ERP during its first phase. The inflationary consequences of a price decontrol policy are basically part of the unavoidable temporary costs of adjusting economies that have chronic problems originating mainly from cumulative distortions.

3. Curtailment of Over–extended Public Sector

This is a composite target which is usually achieved through multiple policy instruments and over time. The over–extendedness of the public sector manifests itself in a number of ways, i.e. in overstaffing, overspending, structural imbalances and in the low productivity of public investment. Overstaffing and overspending are considered in this paper as constituting a single target that will be addressed through retrenchment of redundant government employees. Low productivity of public investment and structural imbalances related to an over-extended public sector are medium term policy targets and will not, therefore, be examined here.

The retrenchment of so-called redundant government employees is a drastic measure. The size of government employment has been reduced by more than 10% (22% in The Gambia, 15% in Guinea) in most of the countries that have adopted retrenchment as a policy instrument. In The Gambia, for example, about 24% of teachers were laid-off. The combined effect of devaluation, price decontrol, and retrenchment has been severe on the poorest segments of the population in most of these countries (UNICEF, 1986; Jonah, 1987). Those who invented retrenchment as a policy instrument hoped that the laid-off government employees were to be recycled back into the productive sectors. That is, the private sector was to absorb them, but as it turned out there were no operational measures in place to integrate the retrenched employees into productive activities. The donor community has now recognized the importance of addressing explicitly the Social Dimensions of Adjustment (SDA) in the design stage of ERP. In this regard, a regional facility on Social Dimensions of Adjustment has been established jointly by the World Bank, the UNDP, and the African Development Bank. In addition, country specific SDA projects are being designed with the aim of improving the situation.

### 4. Trade Liberalization

It should be mentioned at the beginning of this section that the removal of exchange rate and price distortions was not in itself adequate to bring about an efficient allocation of resources in the economy, in the absence of a liberalized and competitive environment. In this respect, all the countries that are current in their programs, have carried out the requisite measures to liberalize their trade. Marketing boards have been abolished completely in some instances (Nigeria), and where they have not been dismantled, competition with the private sector is allowed. In the foreign trade sector, export and import licenses have been abandoned in most cases and appropriate packages of incentives instituted. In Nigeria, for instance, an export promotion decree was issued at the beginning of its Structural Adjustment Program (SAP). Among the key elements of the Nigerian export incentive decree were: a duty drawback scheme, a 100% retention of foreign exchange earnings by exporters, an export revolving fund account, a domiciliary account scheme, and an export credit and insurance scheme.

The combined effect of trade liberalization, the elimination of exchange rate distortions, and price decontrol has created a relatively competitive environment. The removal of export and import restrictions has, however, renewed the traditional debate on the protection of infant industry. Nigeria, for example, adopted the import substitution strategy in the mid-1970s by establishing industries that either processed imported raw materials or assembled imported components into finished products (e.g. cars) for the domestic market. These industries have been hurt by the removal of import restrictions. This is illustrated by the five-year performance figures for Volkswagen of Nigeria Limited:

| INDICATOR | YEARS | | | | |
|---|---|---|---|---|---|
| | 1983 | 1984 | 1985 | 1986 | 1987 |
| Installed capacity (units) per annum | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| Production (Units) | 13,446 | 17,580 | 20,829 | 3,747 | 777 |
| Capacity Utilization(%) | 33.6 | 44.0 | 53.4 | 9.6 | 7.8 |
| Sales (Units) | 19,133 | 19,222 | 20,671 | 2,744 | 147 |
| Factory closure (Days) | 0 | 0 | 9 | 136 | 17 |
| Exchange rate One U.S. $ = Naira | 0.75 | 0.81 | 1.00 | 3.33 | 4.04 |

Source: From Volkswagen, Monthly Bulletin, published by Volkswagen of Nigeria Limited, May 1987.

The above figures clearly tell the story of those industries that have been hurt by trade liberalization policies. This is not to say, however, that the new trade policy has negatively affected the industrial sector as a whole; some industries such as textiles and beer (Nigeria) have surely benefited. What is not clear, though, is the total impact of trade liberalization on the entire industrial sector.

### 5. Rehabilitation of the Financial Sector

All countries that are implementing ERP have recognized the important role of financial institutions in the development process of their economies. In this regard, institutional strengthening in the financial sector is being carried out as a first step toward establishing a viable financial system. The problems of the financial sector, one could argue, did not necessarily originate from market distortions per se, but rather from limited institutional capacity compounded by inefficiency and lack of managerial skills in the area of banking and finance. Thus, deregulating an institutionally inefficient financial sector is a risky undertaking (Buffie, 1984).

6. Reduction of Current Account Deficit

It would be presumptuous to correlate a reduction in the current account deficit with a single policy instrument, fiscal or otherwise. As stated earlier, the reduction of the current account deficit as a specific objective is essentially related to all seven policy instruments constituting the first phase of my ERP schematic model. Let us first examine the degree of success in reducing the current account deficit, then the assignment problem within the framework of Mundell's and Genberg-Swoboda's solutions, and finally the question of timing as raised by Williamson (1983) and Khan (1987).

In comparing the direction of the current account deficits between the pre-ERP (1983-84) period and the first phase (1986-87) of ERP, I have found that the deficit has increased, in absolute terms, for 80% of the countries that began restructuring their economies in mid-1985. Nigeria and Mauritania were the only two countries that achieved a current account surplus during the first phase of ERP. That of Nigeria was basically due to the relative stability of oil prices in 1987. In relative terms, when the current account deficit is expressed as a percentage of GDP, we find that it has improved for 47% of the above mentioned group of countries.

On the appropriateness of this policy instrument, it would seem to me that the inability of 80% of the countries to reduce their current account deficits was not due to their failure to apply correctly the fiscal instruments. One could argue, however, and especially from the perspective of Genberg-Swoboda's solution, that there was in part an inappropriate mix of fiscal and monetary instruments. That is, given the excess capacity of African economies, an appropriate policy mix could have combined a stringent fiscal policy with an expansionary monetary policy to reduce the current account deficit. As shown in the next section, all the countries pursued very stringent monetary policies during the first phase of ERP. The policy target was inflation and not unemployment. The combined effect of devaluation, price decontrol, trade liberalization, retrenchment, and the reduction of government expenditures is stagflationary. Hence, reducing the current account deficit within the framework of ERP requires one of the following: (i) reducing government spending on the one hand, and increasing the money stock on the other, or (ii) a reduction of the current account deficit in the medium-to-longer term.

7. Containment of Inflation

Tight money is the conventional policy instrument usually assigned to this target. With the introduction of ERP, monetary and credit instruments are increasingly being used to bring about desired changes in the economy. In this regard, all the countries have pursued tight monetary policies in an attempt to contain the inflationary pressures resulting from the simultaneous implementation of economic reform measures in the short run. Discount rates on commercial paper and reserve requirements were raised in all the countries during the first phase of ERP. The ceiling on interest rates was lifted and allowed to vary while a limit was imposed on domestic credit to the public sector.

Thus, to judge from the growth rates of money supply, inflation rates, and interest rates, all the countries have succeeded in containing inflationary pressures through the monetary instrument. In addition, these economies have started to witness positive real interest rates for the first time in many years. In some countries, this has attracted the inflow of short term foreign capital. While high interest rates have attracted the inflow of foreign capital, they have at the same time hurt those local businesses that do not have access to foreign capital and who find it very expensive to borrow locally.

We have thus far examined the performance of the African economies during the first phase of ERP and found that the application of stringent fiscal and monetary policies, particularly when combined with a devaluation of local currencies, has caused a contraction in economic activities in the very short run for a number of countries. However, the contraction in economic activity should be seen as a transitory phenomenon that will be overcome gradually as adjustment measures are implemented. Nevertheless, other writers have expressed reservations about the applicability of such a policy mix. For instance, Taylor (1983) describes the combination of devaluation and tight monetary policies as "overkill," while Islam (1984) sees it as "a painful remedy to achieve a cure". Buira (1983) strongly believes that the short run stagflationary consequences of this policy mix may result in what he calls "sustained economic depression and high levels of unemployment". But as illustrated by the growth rates in real GDP (see Annex 2), there is no strong empirical evidence in support of the above stated views.

As the second phase, or the medium term, of ERP has just begun, it is premature to assess its impact on these economies. It should be mentioned, however, that significant progress has been made with respect to a number of medium term targets. There has been an improvement in:

i) public investment programming,

ii) macroeconomic management,

iii) management of external debt, and

iv) public enterprise reforms.

## V. Summary and Conclusions

This paper emphasizes the role of public policy in the design, the execution, the monitoring, and the management of macroeconomic policies. This is reflected in the choice of the Preamble of the Lagos Plan of Action as the starting point for my paper. In examining the elements of the African development crisis, the paper identifies three sets of factors as the major causes of the continent's economic malaise in the 1980s: exogenous shocks, structural problems, and inconsistent domestic macroeconomic policies.

This paper has developed a schematic model based on the main elements of current economic policy reform. The sequencing of policies and the appropriate assignment of policy instruments to their respective targets are the main features of the schematic model. The model was then utilized in evaluating the performance of the African economies, especially those adopting comprehensive economic reforms in mid-1985.

Notwithstanding the preliminary nature of available data on income distribution in these countries, the reform measures implemented thus far appear to have contributed to a modest growth in real GDP for all the economies under review. In addition, a combination of good rainfalls and policy reform measures appears to have contributed to increased rural incomes both in real terms and in relation to urban incomes. That is, the agricultural sector in most of these economies, aided by good climatic conditions, has responded positively to the incentives under ERP. As far as the industrial sector is concerned, the performance of the Nigerian industries during the first phase of ERP does not reflect a definite trend.

I would conclude this paper by emphasizing the following four points:

1. That in the pursuit of policy dialogue, donor agencies should recognize that African states are sovereign and that they have social and moral obligations to their citizens. Thus, reform measures should be phased in a gradual manner with a view to

minimizing the transitional cost of adjustment, especially in the absence of a viable social security institution;

2. That African states for their part, should allow more participation of their citizens in the design and implementation of ERP, i.e. less personalization of the state and more individual freedom of expression would, hopefully, lead to the design of efficient domestic policies enabling the state to be an organ of economic policy instead of an instrument of administrative planning;
3. That debt should be self-financing by directing foreign loans to support development projects with economic rates of return (where calculable) greater than the cost of borrowing. This is a challenge to both the donor community and the African countries; and
4. That, while economists have theories to explain the behavior of both the firm and consumer, they must develop a theory explaining the behavior of the African state (politicians, if you wish). In this regard, scholars in both economics and policy sciences are called upon to come up with a theory of the behavior of an African state.

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*ANNEX 1*

**FOREIGN EXCHANGE MARKET SCORECARD**

| WEEK | No. of Bidders | No. of Successful Bids | Marginal Rate ₦ to $ | Buying Rate ₦ to $ | Selling Rate ₦ to $ | Total Supply for Each Bidding ($'million) | Total Demand For Each Bidding ($'million) | Highest Bid Rate ₦ to $ | Lowest Bid Rate ₦ to $ |
|---|---|---|---|---|---|---|---|---|---|
| BID. 1 (12/9/86)* | 34 | 16 | 4.1958 | 4.6406 | 4.6870 | 50 | 83.87 | 5.1250 | 2.5000 |
| BID. 2 (2/10/86)* | 38 | 13 | 4.8973 | 5.0585 | 5.1093 | 50 | 100.11 | 5.5999 | 3.000 |
| BID. 3 (9/10/86) | 38 | 36 | 3.4999 | 3.4999 | 3.5351 | 75 | 75.525 | 5.3499 | 2.7050 |
| BID. 4 (16/10/86) | 39 | 33 | 3.9101 | 3.9101 | 3.9493 | 80 | 93.55 | 4.8000 | 3.3450 |
| BID. 5 (23/10/86) | 40 | 34 | 4.1775 | 4.1775 | 4.2193 | 75 | 88.00 | 4.7999 | 3.7500 |
| BID. 6 (30/10/86) | 41 | 39 | 3.8525 | 3.8525 | 3.8913 | 86 | 90.55 | 4.6000 | 3.5001 |
| BID. 7 (6/11/86) | 30 | 30 | 3.6000 | 3.4000 | 3.6362 | 75 | 69.25 | 4.3640 | 3.6000 |
| BID. 8 (13/11/86) | 36 | 35 | 3.4993 | 3.4993 | 3.5345 | 75 | 76.65 | 4.2013 | 3.4993 |
| BID. 9 (20/11/86) | 38 | 35 | 3.4599 | 3.4599 | 3.4945 | 75 | 81.34 | 3.9995 | 3.3125 |
| BID. 10 (27/11/86) | 37 | 35 | 3.4945 | 3.4945 | 3.5297 | 75 | 79.68 | 3.8750 | 3.4462 |
| BID. 11 (4/12/86) | 35 | 35 | 3.0005 | 3.0005 | 3.0307 | 75 | 60.862 | 3.6065 | 3.0005 |
| BID. 12 (11/12/86) | 39 | 39 | 3.2000 | 3.2000 | 3.2322 | 75 | 75.295 | 3.5021 | 2.9900 |
| BID. 13 (18/12/86) | 39 | 37 | 3.3000 | 3.3000 | 3.3332 | 50 | 52.235 | 3.6600 | 3.2000 |
| BID. 14 (8/1/87) | 39 | 34 | 3.4250 | 3.4250 | 3.4594 | 50 | 55.41 | 4.0000 | 3.3825 |
| BID. 15 (15/1/87) | 40 | 32 | 3.5369 | 3.5369 | 3.5725 | 50 | 61.51 | 3.9876 | 3.4950 |
| BID. 16 (22/1/87) | 42 | 32 | 3.6817 | 3.6817 | 3.7187 | 50 | 64.60 | 4.2565 | 3.6000 |
| BID. 17 (29/1/87) | 42 | 36 | 3.8719 | 3.8719 | 3.9106 | 50 | 64.10 | 4.3977 | 3.7895 |
| BID. 18 (5/2/87) | 43 | 34 | 3.9215 | 3.9215 | 3.9609 | 75 | 94.04 | 4.3116 | 3.6850 |
| BID. 19 (12/2/87) | 42 | 42 | 3.0000 | 3.0000 | 3.0303 | 75 | 74.972 | 4.3213 | 3.0000 |
| BID. 20 (19/2/87) | 44 | 33 | 3.9050 | 3.9050 | 3.9442 | 50 | 66.955 | 4.2220 | 3.5000 |
| BID. 21 (26/2/87) | 44 | 36 | 3.9050 | 3.9050 | 3.9442 | 50 | 63.40 | 4.3000 | 3.5000 |
| BID. 22 (5/3/87) + | 44 | 27 (17) | 3.8050 | 3.8050 | 3.8431 | 50 | 38.39 | 4.2755 | 3.8050 |
| BID. 23 (12/3/87) + | 42 | 27 (15) | 3.8999 | 3.8999 | 3.9389 | 50 | 46.4 | 4.2000 | 3.8997 |
| BID 24 (19/3/87) | 42 | 32 | 4.0002 | 4.0002 | 4.0403 | 50 | 65.8 | 4.2500 | 3.6500 |
| BID. 25 (2/4/87) | 44 | 34 | 3.7001 | 3.7188 | 3.7562 | 80 | 102.18 | 4.0604 | 3.5250 |
| BID. 26 (16/4/87) | 44 | 33 | 3.8990 | 3.9187 | 3.9587 | 70 | 95.959 | 4.0205 | 3.7500 |
| BID. 27 (30/4/87) | 46 | 35 | 3.9999 | 4.0201 | 4.0605 | 70 | 100.7 | 4.1501 | 3.9499 |
| BID 28 (14/5/87) | 47 | 32 | 4.1202 | 4.1409 | 4.1825 | 85 | 125.20 | 4.2502 | 4.0207 |
| BID. 29 (4/6/87) | 48 | 33 | 4.3201 | 4.3419 | 4.3856 | 100 | 150. | 4.6599 | 4.2140 |
| BID. 30 (18/6/87) | 30 | 30 | 3.7007 | 3.7188 | 3.7562 | 70 | 64.39 | 4.6000 | 3.7001 |
| BID 31 (2/7/87) | 36 | 32 | 3.9500 | 3.9699 | 4.0098 | 70 | 78.74 | 4.4005 | 3.8924 |
| BID 32 (16/7/87) | 47 | 47 | 3.5000 | 3.5177 | 3.5530 | 100 | 97.200 | 4.3999 | 3.5000 |
| BID 33 (30/7/87) | 47 | 43 | 3.8601 | 3.8796 | 3.9186 | 100 | 111.00 | 4.3628 | 3.5011 |
| BID 34 (13/8/87) | 46 | 43 | 4.0001 | 6.3561 | 6.4200 | 100 | 109.63 | 4.2555 | 3.8953 |

NOTE *

(A) During the first two biddings:

- (a) Average Rate (AR) + 0.5% (AR) = Effective Rate (ER)
- (b) Average Rate (AR) + 1.5% (AR) = Selling Rate
- (c) Average Rate (AR) = Buying Rate (BR)

(B) From 3rd to 24th biddings: Average Rate was no longer relevant and therefore:

- (a) Marginal Rate (MR) = Buying Rate (BR)
- (b) Marginal Rate (MR) + 0.5% (MR) = Effective Rate
- (c) Effective Rate (ER) + 0.5% (ER) = Selling Rate (SR)
- (d) Marginal Rate (MR) + 1% MR = Selling Rate

(B) From 25th bidding the Dutch Auction system was introduced and therefore:

Marginal Rate (MR) + 0.5% (MR) = Buying Rate
Buying Rate (BR) + 1% BR = Selling Rate
Marginal Rate + 1.5% (MR) = Selling Rate
Effective Rate = Average of Buying and Selling Rates

(C) Total Cumulative Sales as at 18/6/87 for the 30 biddings = $1,960.3m

+ 17 and 15 banks were disqualified for non-submission of returns during the 22nd and 23rd sessions respectively

Source: Monthly Business and Economic Digest. United Bank for Africa Limited (UBA), Lagos, Nigeria, August 1987.

*ANNEX 2*

*TABLE: GDP GROWTH RATES FOR 12 AFRICAN COUNTRIES DURING THE PERIOD 1983-1987*

| | COUNTRY | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|
| 1. | Burundi | 1.1 | - 1.5 | 7.7 | 4.9 | 1.7 |
| 2. | Central Africa Rep. | - 6.1 | 7.5 | 3.9 | 1.1 | 1.2 |
| 3. | Chad | - 7.0 | - 4.6 | 6.0 | 4.8 | 3.8 |
| 4. | The Gambia | - 7.2 | - 0.23 | - 0.51 | 5.6 | 6.0 |
| 5. | Guinea | - 5.0 | - 1.8 | - 10.6 | - 2.0 | 5.8 |
| 6. | Guinea Bissau | 1.8 | 7.4 | - 2.3 | 4.7 | 5.3 |
| 7. | Mauritania | 6.6 | - 0.5 | 3.1 | 4.9 | 2.3 |
| 8. | Niger | - 2.6 | -16.8 | 5.5 | 6.9 | - 4.9 |
| 9. | Nigeria | - 8.5 | - 4.5 | 1.2 | - 3.3 | 1.2 |
| 10. | Tanzania | - 1.5 | 2.4 | 4.2 | 4.2 | 4.2 |
| 11. | Zaîre | 0.8 | 2.7 | 2.6 | 2.4 | 3.0 |
| 12. | Zambia | 1.8 | - 2.7 | 4.4 | - 1.0 | 2.0 |
| | Group Average | - 2.2 | - 1.1 | 2.1 | 2.8 | 2.6 |

# Trade Policy Issues Facing Sub-Saharan Africa*

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## I. Introduction

The economic crisis which engulfs the sub-Saharan countries has many dimensions, and calls for action on multiple fronts. Perhaps closest to the surface is a debt crisis which has paralyzed many African economies by sharply curtailing the availability of foreign exchange. By the International Monetary Funds's (IMF) reckoning, only twelve sub-Saharan countries (out of 44 member countries) managed to service their external debt promptly during the 1980s without recourse to reschedulings or arrears.[1] The pervasiveness of the macroeconomic disequilibrium of which the debt crisis is symptomatic is reflected by the unprecendented recourse to the IMF: no less than 24 African countries currently have IMF programs. Among the countries which have been declared ineligible for further Fund lending due to arrears, African countries constitute by far the largest group.

The African debt crisis masks a much deeper developmental crisis that appears to have condemned the continent to a secular decline in living standards. For two decades now, per capita incomes in low income Africa have been on a downward trend. This decline calls for broad-fronted action by African countries themselves as well as by donor countries and agencies. It is unlikely, however, that much progress in this greater task can be made before these countries regain macroeconomic stability. Structural and institutional reforms are exceedingly difficult to implement in an environment where foreign currency is scarce, industrial capacity is under-utilized, inflation is high and unpredictable, and entrepreneurs await the reversal of the latest belt-tightening reforms. Policy measures that will help resolve the debt crisis and establish a more stable macro environment are therefore the necessary first steps before the larger developmental challenges are faced.

My purpose in this paper is to discuss the role of trade policy in this process. While trade policy will generally be only one component of the requisite reforms, it carries great weight in many of the packages proposed to (and increasingly implemented by) African governments. The World Bank's influential Berg report (World Bank, 1981) attributed much of the fault for Africa's poor performance to misguided trade policies: high and variable rates of import protection with wasteful management of import licenses, export taxes, and export marketing boards which pass along few of the benefits of trade to producers. The World Bank's structural

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[1]See IMF Survey (June 1988), Special Supplement on Sub-Saharan African Debt, p. 179.

adjustment programs aim at removing these impediments to improved economic performance. To avoid undue optimism and reversal of reforms, it is important to have a good understanding of what trade policy can achieve and what it cannot on the way to recovery.

The next section starts with a general discussion on the role of trade policy, with an eye towards developing a set of guidelines which can inform its formulation over the medium- to long-run. Since a modicum of macroeconomic stability is the *sine qua non* of recovery, I will stress the contribution that trade policy can make to this objective.

## II. What Role Can Trade Policy Play?

For the most part, sub-Saharan countries have followed policies highly disadvantageous to trade. Import barriers have been high and variable across sectors. Tables 1 and 2 (taken from Erzan et al, 1987) display the prevailing levels of tariff and non-tariff protection in selected developing countries among which eleven sub-Saharan economies are included. The data for the African countries show a high average level of tariff protection (mostly in the range of thirty percent) and pervasive quantitative restrictions. Such barriers have served to restrict exports as well as imports, as they have directed resources away from exporting sectors and have raised the cost of imported inputs to potential exporters. Exports of commodities have also been discouraged more directly via export taxes and the operation of commodity marketing boards. The net effect of these policies has been to suppress both imports and exports to a much lower share of GNP than would have been the case in their absence.

The effect of currency overvaluation has been much the same, even though exchange rate policy should in principle have had rather different consequences for trade. To see this, consider the distinction between trade policy and exchange rate policy: Trade policy affects the relative price between importables and exportables, while the exchange rate, in principle, determines the relative price of tradable commodities (exports *and* import-competing goods) to non-tradable commodities. An overvalued currency acts as an import subsidy combined with an export tax, reducing the domestic prices of both exports and imports without distorting the relative price between the two. Hence, currency overvaluation would normally be associated with a rising share of imports (and a falling share of exports) rather than a decline in both. In practice, however, scarce foreign exchange has had to be allocated administratively, with a much depreciated parallel rate serving as the true marginal cost of foreign currency to importers. Consequently, overvalued currencies have acted as export taxes (and equivalently, as import tariffs) alone, tending to suppress both imports and exports.

The reasons for the existing pattern of protection are many. The colonial experience with trade and the desire to industrialize via import substitution framed the general philosophy which underlies these policies. Frequently, import restrictions were also a response to periodic balance-of-payments crises. More damagingly, the discretionary potential of complicated import and export licensing procedures presented bureaucrats with an important source of wealth and power, and guaranteed their continuation. There is now wide agreement that the result has been a haphazard scheme of protection and a very inefficient set of industries.

Under pressure from the prevailing crisis, many African countries have started to reform their trade policies. Table 3 lists some of the major exchange rate and trade policy reforms being undertaken in six sub-Saharan countries, all with World Bank assistance. The key objectives are to raise the price received by exporters, to simplify the trade regime, and to reduce the reliance on quantitative restrictions. Depending on context, the precise nature of the trade reform will, of course, vary. Given the anti-trade bias of the prevailing policies, however, it is probably a safe guess that some degree of trade liberalization will characterize most of these reforms. In what follows, I will discuss such reforms from two perspectives: (a) their potential contribution to macroeconomic stability, and (b) their contribution to efficient resource utilization and growth over the medium-run.

Macroeconomic Stability

It is generally difficult to achieve satisfactory trade performance in the midst of macroeconomic crisis, even if the microeconomic incentives have been impeccably fine-tuned. In Senegal, for example, a substantial trade reform involving export subsidization and an export free zone gave few results in large part due to macro policy failures related to currency overvaluation, fiscal policy, and overall uncertainty (Meier and Steel, pp. 67-68). The road to macroeconomic stability in turn starts from resolving the foreign exchange crisis. Given the severity of the debt problem, it is doubtful that this can be achieved in the absence of some measure of debt relief provided by creditors. Since my focus is on trade policy, however, I will concentrate on what governments may need to do to complement such relief.

The usual prescription for a country experiencing an external payments imbalance is the orthodox macroeconomic package of expenditure switching and expenditure reducing policies. The real life counterparts of these are devaluation and fiscal retrenchment. Devaluation switches resources into and expenditures out of tradables, while fiscal cuts help this work by cutting aggregate expenditures to allow an exportable surplus to develop. The problems with these are manifold and need not be repeated here at length. Devaluation may be inflationary if not matched by sufficiently deep cuts in spending. In turn, such cuts are likely to be costly to domestic output and employment if prices are not sufficiently flexible downwards. These problems are the primary source of resistance to the orthodox package. The circumstances of African countries suggest further problems with expenditure reducing policies. In particular, since capacity under-utilization is rampant, the costs of further recession are even higher. Also, some governments continue to doubt the likely strength of response of producers and consumers to price signals.

What is the appropriate role of trade policy in all this? At first glance, not much. Macro disequilibria call for macro policies. In particular, the implicit export tax contained in overvalued currencies can best be removed by devaluations.[2] But even with a devaluation, explicit discrimination against exports may continue to exist via export taxes and marketing boards. The reduction of these impediments would add a further boost to exports (and hence to foreign exchange availability), provided these gains to exporters are not offset by a real appreciation of the home currency.

Liberalization on the import side can play a similar role of increasing foreign exchange receipts, but has to be managed more carefully. Unlike export liberalization, its initial effect would be to increase the net demand for foreign currency. This would raise the black market premium on dollars, and therefore increase the implicit tax on exports. To prevent this from happening, a step-devaluation must accompany any significant import liberalization. With the devaluation included in the package, import liberalization would amount to an across-the-board export subsidy and serve the same function as the removal of explicit export taxes. This is the sense in which removal of impediments to exports and imports are equivalent in their effects. When appropriately managed, both raise exports (and foreign exchange availability).

The story of trade reform would not be complete without an analysis of its effects of government finances. As fiscal deficits are typically the chief cause of

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[2]This is an option not open to CFA countries, which creates the need for imaginative ways of simulating currency devaluations by use of trade taxes and subsidies. See below.

excess demand in sub-Saharan economies, macroeconomic stability will prove elusive unless government expenditures and receipts are brought closer together. As Table 4 shows, trade taxes constitute on average around a quarter of government current revenues, and close to half of total tax revenues (not shown in the table). The governments in Uganda, Burkina Faso, Sierra Leone, Sudan, Swaziland, and Mauritius collect as much revenue from trade as they do from all other sources combined. When mobilizing government resources through other means is costly or impossible, policy makers should be wary of undertaking a liberalization which reduces tax revenues. A trade reform which serves to widen the fiscal imbalance will likely prove self-defeating, as the excess demand thereby created will generate additional claims on foreign currency gained or saved.

In many African countries, however, raising government revenue can be compatible with substantial amounts of trade liberalization. In the first instance, the pervasive quotas and administrative licensing procedures could be converted into tariffs, allowing private fortunes accumulated through rents to be transferred to public coffers. Quota conversion is already included in the reform programs of some African countries (see Table 3), and deserves a close look by others. Secondly, trade liberalization may expand the tax base, and thereby total tax revenues, by reducing illicit activity such as smuggling.[3] The wide price disparities created by trade restrictions in areas where borders are porous suggest that it is easy for a government to find itself on the wrong side of the Laffer curve for trade revenues.

A more subtle effect on public finances operates through the exchange rate. As argued above, import liberalization would likely call for a depreciation of the currency to restore macroeconomic balance. A real depreciation in turn will likely have distributional consequences as between the private and public sectors. A government which services foreign debt has to purchase foreign currency from the private sector; a devaluation hence imposes a direct cost on the public sector unless there are offsetting gains elsewhere in the budget.

Remember that a real depreciation increases the price of traded goods relative to non-traded goods. The beneficial scenario is the one where traded commodities are a source of net revenue for the government, as would be the case when sizable trade taxes remain and/or public enterprises are important exporters. Then, the real depreciation would improve the government's terms of trade vis-à-vis the private sector, and public sector revenues would receive a boost in real terms,

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[3]See Bates (1981, chap. 5) on farmers' response to disadvantageous pricing policies.

alleviating the budgetary problem. Where the opposite situation obtains — i.e., when traded goods are a source of net expenditure for the government, as with debt-service payments — or when the country's external terms of trade deteriorate, the government may be left poorer after the depreciation. In the latter case trade liberalizaton will have a hidden macroeconomic cost (Rodrik, 1988a).

Since exchange rate changes may have important effects on fiscal balance, it follows that certain types of trade policy may be preferred as a second best to more costly exchange rate policies. For example, suppose it is determined that a devaluation tends to worsen the government's budget. Then, an increase in import tariffs may be a better way of reducing the demand for foreign currency than devaluation. Provided the government has not crossed over to the wrong side of the Laffer curve, the former will raise revenue whereas the latter would lose it. Similarly, targeting export subsidies on marginal, non-traditional exports with high export-supply elasticities may be a good way of increasing exports at a lower budgetary cost than devaluations: windfall transfers to exporters with low price-responsiveness are thereby avoided. Such a targeting policy, however, may require a well-developed administrative capability to be effective.

## Efficiency and Growth

The preceding considerations are not the ones on which the traditional call for trade reform is based. The case for trade liberalization rests on allocative efficiency: high rates of trade protection distort resource allocation by directing labor, capital, and entrepreneurial talent away from export-oriented sectors and towards import-competing activities; variable rates of effective protection among the latter introduce further distortions.[4] Trade reform could eliminate some of these biases and increase national income by re-allocating productive factors to where they would be more productive. These gains could be magnified several times, if there is also a sizable reduction in the wasteful rent seeking activities to which protective trade regimes tend to give rise.

Any trade reform must confront the question of the overall direction of incentives to be provided. The strategic issue is whether certain industries deserve to be favored at the expense of others. The general answer given to this by

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[4]Notice, though, that there is no general theoretical case for equalizing effective rates of protection across sectors, in the absence of an optimally selected structure of commodity taxes. Minimizing consumption losses will require a non-uniform set of tariffs along the Ramsey rule, i.e. higher tariffs on commodities for which demand is relatively inelastic.

policy makers is almost certain to be yes, although the particular sectoral preferences will vary from country to country. At a conceptual level, the appropriate answer depends on the existence of positive externalities. Sectors which are the source of such externalities are the appropriate targets for protection and/or subsidization. As a general rule, import-competing manufacturing industries may need to be given some moderate level of protection on traditional infant industry grounds.[5] But it should be borne in mind that substantial positive externalities may exist in nontraditional exports as well — marketing and reputational externalities, for example. Export subsidies on these may be necessary to offset the penalties imposed by import restrictions. Notice that, the more generalized import restriction and export subsidies are, the closer they come to replicating the effects of currency devaluation. For administrative ease, therefore, an undervalued currency may well be preferred to the simultaneous use of import tariffs and export subsidies. Such undervaluation protects all traded sectors uniformly, to the detriment of non-traded sectors.

An important caveat, not always appreciated by advocates of trade liberalization, is that the benefits of such reform will be static ones: that is, relocating resources in line with comparative advantage creates only one time gains. These gains of course can cumulate over time, as they will be experienced in every year that the reform lasts. But there can be no general presumption that trade reform alone can increase the rate of growth of the economy, or that it can improve technological performance. On empirical as well as theoretical grounds, one has to be suspicious of any argument that draws causal links between factor productivity and its rate of growth, on the one hand, and trade policy, on the other (see Rodrik, 1988b).

One has to be wary about trade liberalizaton on employment grounds as well. Remember that trade reform "works" by moving labor, capital, and entrepreneurs around. In any African economy it would be foolhardy to expect such mobility to take place instantaneously and without friction. Consequently, even the most successful reform is likely to lead to some transitional unemployment. Such unemployment may be particularly costly if the reform is undertaken in the midst of a macroeconomic crisis.

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[5]It should be remembered that trade protection will be rarely first-best, even on legitimate infant industry grounds. Production subsidies, provided they can be financed, will generally be preferable.

These considerations suggest that the traditional arguments for trade reform are not sufficiently strong to make it an urgent priority in economies suffering from extreme macroeconomic imbalances. In the early stages of economic reform, it will be more appropriate to evaluate trade policy with respect to its contribution to the macroeconomic picture, as done above, rather than with an eye towards allocative efficiency. And once the traditional arguments (based on allocative efficiency) are left aside, heterodox policy conclusions should not come as a surprise.

## III. Some Guidelines for Trade Policy Formulation

I now turn to some specific guidelines that would contribute to healthy policy making in the trade field. These can be summarized in the form of four maxims: (a) trade policy is inefficient in dealing with macroeconomic problems; (b) trade policy should economize on administrative resources; (c) the external environment should not matter in trade policy formulation; (d) stability and predictability of incentives are probably more important than the structure of incentives. Some of these cover issues over which there has been considerable debate in sub-Saharan Africa. Others sound banal, but their implications have not always been appreciated. I take up each in turn.

### Trade policy is inefficient in dealing with macroeconomic problems.

I discussed above certain ways in which cautious use of trade policy could help in resolving the macroeconomic crisis. It should be understood that trade policy has at best a modest role in this. Macroeconomic disequilibria have to be handled with macroeconomic policy tools, the fiscal stance and the exchange rate in particular. As the discussion illustrated, the predominant contribution to be made by trade policy is one of not complicating the macroeconomic adjustment process.

The first impulse of many policy makers faced with a growing balance-of-payments crisis is to slap on trade restrictions. A foreign exchange shortage reveals an imbalance between aggregate expenditures of an economy and its aggregate output (or resources), and as such reflects an underlying macroeconomic disequilibrium. To be sure, when accompanied by restricitve demand policies, trade restrictions can be a partial solution to the problem But, and this is the key point, a currency devaluation will generally do a better job. The reason is twofold. First, a devaluation is equivalent to an export subsidy combined with import restrictions, so it does not discriminate against exports. This equivalence permits CFA countries to simulate a devaluation without going off fixed exchange rates, as has been attempted by Côte d'Ivoire. Secondly, a devaluation is administratively easy to implement and does not lead to the various bureaucratic inefficiencies to which import controls are prone.

Devaluation has many critics in Africa (as elsewhere), and there is little doubt that it can be painful medicine at times. But it should also be clear that many arguments made against exchange rate policy could be used equally well against trade restrictions. This is evident since generalized import restrictions are functionally identical to devaluations combined with export taxes. Any advantage of the former policy must derive from the desirability of export taxes, which is dubious at best, or from compelling revenue reasons, which may exist (as discussed above). For example, a chief criticism of devaluation is that it is inflationary (see for example Godfrey, 1985, pp. 176–77). But import restrictions can be equally inflationary, as they drive up the price of imported and import-competing commodities. The expenditure switching nature of both policies can be blunted by a generalized price rise. In either case, however, inflation is more properly attributed to faulty demand management rather than to policies aiming to choke off demand for foreign goods.

It remains true that trade restrictions are frequently more acceptable politically than devaluations. The precise reason for this is a bit of mystery to which only political economy can shed light. But part of the reason may lie precisely with the inefficacy of trade restrictions. As implemented, import controls tend to become arbitrary, discriminatory, and full of loopholes with which to exercise selectivity. As such, they greatly enhance the power of bureaucrats, an important political constituency. Their porous nature, on the other hand, makes it easier to get around them. It is this "softness" of trade controls which may render them more palatable in the eyes of those who have to live with them.

In many ways, then, the choice between trade and exchange rate policies is a choice between across-the-board and discriminatory policies. The former has the economic advantage of not distorting resource allocation. The latter presents political opportunities.

Trade policy should economize on administrative resources.

It is often said that administrative capability is one of the scarcest resources of sub-Saharan countries. Low levels of literacy and educational attainment imply a high opportunity cost to large bureaucracies. The intricate import and export regimes erected by many African countries, requiring mountains of paperwork and many levels of administrative vetting, exert a disproportionately large burden on this scarce resource. This is, then, another reason for why trade regimes with a high degree of automaticity are preferable to those characterized by selectivity and discrimination.

There are many examples in Africa of how otherwise sensible policies have remained ineffective due to poor administration. Kenya attempted during the 1970s to offset some of the anti-trade effects of its import restrictions by instituting a ten percent subsidy on exports. Such were the delays and hurdles in the implementation of the subsidy that entrepreneurs appear to have discounted its effect almost entirely, treating it as a windfall gain when it materialized. Exports scarcely budged in reaction (Low, 1982). Côte d'Ivoire's use of import tariffs and export subsidies in an attempt to simulate currency devaluation is also reported to have been plagued by implementation problems (Meier and Steel, 1987, p. 131).

To relax the administrative constraint, governments must be imaginative in devising policy combinations that put the least possible claim on bureaucratic talent. Frequently, this means reversing the usual logic of governmental action. For example, in highly protected economies, the usual tendency is to compensate exporters by instituting various schemes that allow duty-free imported inputs, foreign currency retention, or direct subsidies. While the logic of such action is impeccable, these schemes also erect additional layers of administration on top of an already strained bureaucracy. This may prove at once ineffective and costly to the treasury. It would be much better to reduce the levels of import protection directly, and (if need be) compensate the import-competing interests with a devaluation.

More generally, trade regimes typically consist of a maze of import and export regulations, most of which have been erected in reaction to the perceived shortcomings or byproducts of previously instituted measures. As the administrative mess grows, the underlying philosophy guiding trade policy, if any, get diluted. In many countries, it would be possible to simplify and streamline the regime considerably by re-examining the objectives that trade policy is meant to fulfill.

<u>The external environment should not matter in trade policy formulation</u>.

The world economy cannot be accused of having treated sub-Saharan countries favorably in the last two decades. Among thirty-three countries for which data exist, twenty-six experienced declining terms of trade (in 1970-85). During this period, six of these countries witnessed their terms of trade fall at an annual average rate of five percent or more (Benin, Liberia, Niger, Reunion, Zaire and

Zambia)[6]. Meanwhile, official aid has become harder to get, and commercial banks have been too busy with the larger debtors to worry seriously about African countries. The protectionist mood in the major industrial economies has created worries of market access for any country contemplating export promotion.

Yet, as a general rule, African governments would be safe to ignore the ups and downs of the world trading system while contemplation the direction of domestic trade reform. For one thing, individual sub-Saharan countries are too small to affect the external environment to any significant extent. According to Svedberg (1988, p. 35), ninety percent of sub-Saharan exports takes place in markets where the exporter has less than a ten percent share. The terms-of-trade argument for export taxes (or marketing boards) may remain valid for a small group of commodities and countries — copper in Zambia and Zaire, bauxite in Guinea, groundnut oil in Senegal — but the temptation in the past has been to err too much in this direction in the first place.

Secondly, the case for liberalization and rationalization of the trade regime is largely independent of the nature of the external environment. A buoyant world economy would of course be desirable insofar as it would help draw African exports in and maintain their prices up. But even in a global downturn with spreading protectionism, African governments would still be well advised to eliminate the anti-trade bias of their policies.

This last point may require clarification. A persistent worry is that specialization and increased reliance on exports may prove a dangerous stretegy in a deteriorating external environment. Suppose for the sake of concreteness that world prices for a leading commodity export are expected fall. Does it still make sense to encourage exports? The answer is yes, provided the domestic producers are aware of the fact. Once the relevant information is disseminated, growers and traders will have the incentive to diversify, and the feared over-dependence on a shrinking source of income will not materialize. The appropriate role, then, for the government is to provide the information on which farmers and entrepreneurs can base their production decisions. Trade restrictions are a clumsy way of communicating the government's beliefs regarding the future of the trading environment.

Notice that the argument here does not imply that African countries are unaffected by developments in the world economy. No one could deny that such

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[6]The data are from Svedberg (1988, Appendix Table 5), based on UNCTAD sources.

developments will play a critical role in shaping the economic future of Africa. The healthier and more open the world economy, the greater the African potential. The argument simply is that the case for the type of reforms advocated here is largely independent of what happens outside the borders of individual countries.

Stability and predictability of incentives are probably more important than the structure of incentives.

As governments reform their trade regimes, old questions about industrial policy, infant industry protection, and selective promotion will re-surface. No country is likely to end up with (or view as desirable) a completely flat profile of trade protection with no favored industries. But it is important to bear in mind that the overall credibility and predictability of the incentives will probably play a much greater role in the success of reform than their precise structure. The reason is straightforward. Provided differential incentives do not get out of hand — which for practical purposes means that they do not introduce distortions of more than 20–30 percent in relative prices — the damage they can do to the economy is not that great. This is evident to anyone who has calculated the size of welfare loss triangles arising from moderate levels of tariffs.

The consequences of uncertainty arising from heistant and stumbling policy making, on the other hand, could be quite fatal to the process of recovery. The success of reform requires the cooperation of the private sector, whose behavior the reform is designed to change. Individuals change their behavior, in turn, only when they become convinced that something genuinely new and lasting is taking place. No entrepreneur in his right mind will invest in an export oriented project unless he is convinced that today's trade reform will not be reversed tomorrow. A crucial aspect of reform, then, is the establishment of an environment of policy stability. Objectives must be formulated openly and clearly, and be communicated to the public so as to render the policy making process transparent and predictable.

Much of this is of course easier said than done. Economists are better at designing complicated incentive schemes that will save a fraction of one percent of national income, than they are at advising governments how to establish credibility. What is clear, however, is that repeated tinkering with the trade regime, especially soon after a serious reform, may be deleterious to the private sector's response to the reform.

## IV. Concluding Remarks

This paper has touched on a number of issues raised by trade policy reform. The list is of course far from exhaustive. Beneath the generalized sub-Saharan crisis lies the specific circumstances and political exigencies of different countries. Without attention to such detail, trade policy cannot be successful.

Some of the general ideas discussed here, however, are likely to cut across national borders. An apt summary of these would be that trade policy can play a modest role in leading sub-Saharan countries out of their crisis. In the short run, its contribution should be viewed mostly in terms of its impact on macroeconomic stability. Over the longer run, the classic resource allocation issues come to their own, magnified by considerations of reduced rent seeking. But it is in providing a simple and predictable set of incentives that trade reform can perhaps make the greatest contribution. In this spirit, the ultimate goal of trade reform ought to be rationalization, rather than liberalization.

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Table 1: Unweighted Average Tariff Rates in Developing Countries

*(In parentheses, average total import charges)*

| COUNTRY | Food | Agric.raw Materials | Minerals Fuels | Ores and Metals: Total | Ores and Metals: Iron,Steel & NFM | Manufactures: Total | Manufactures: Chemical Products | Manufactures: Other Manuf. | Manufactures: Machinery & Equipmt | Others | All Sectors |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Algeria | 26 ( 29) | 11 ( 12) | 1 ( 2) | 5 ( 6) | 4 ( 5) | 25 ( 30) | 11 ( 12) | 39 ( 45) | 9 ( 18) | 29 ( 30) | 21 ( 26) |
| Antigua | 13 ( 15) | 3 ( 4) | 9 ( 10) | 5 ( 6) | 6 ( 8) | 14 ( 15) | 7 ( 8) | 18 ( 20) | 11 ( 12) | 44 ( 45) | 12 ( 13) |
| Argentina | 21 ( 22) | 25 ( 26) | 25 ( 26) | 28 ( 29) | 29 ( 30) | 28 ( 29) | 21 ( 22) | 33 ( 34) | 25 ( 26) | 22 ( 23) | 27 ( 28) |
| Bahrain | 5 ( 5) | 5 ( 5) | 5 ( 5) | 5 ( 5) | 5 ( 5) | 7 ( 7) | 5 ( 5) | 8 ( 8) | 8 ( 8) | 6 ( 6) | 6 ( 6) |
| Bangladesh | 64 ( 66) | 66 ( 68) | 36 ( 38) | 42 ( 44) | 50 ( 52) | 101 (103) | 55 ( 57) | 140 (142) | 65 ( 67) | 29 ( 31) | 86 ( 88) |
| Barbados | 19 ( 19) | 4 ( 4) | 11 ( 11) | 7 ( 7) | 8 ( 8) | 20 ( 20) | 8 ( 8) | 28 ( 28) | 15 ( 15) | 43 ( 43) | 17 ( 17) |
| Belize | 19 ( 25) | 4 ( 10) | 11 ( 17) | 7 ( 13) | 8 ( 14) | 20 ( 26) | 8 ( 13) | 28 ( 35) | 15 ( 21) | 43 ( 49) | 17 ( 23) |
| Bolivia | 20 ( 20) | 20 ( 20) | 20 ( 20) | 20 ( 20) | 20 ( 20) | 20 ( 20) | 19 ( 19) | 20 ( 20) | 20 ( 20) | 20 ( 20) | 20 ( 20) |
| Brazil | 52 ( 77) | 43 ( 68) | 19 ( 44) | 30 ( 55) | 36 ( 61) | 62 ( 87) | 41 ( 66) | 77 (102) | 51 ( 76) | 69 ( 94) | 55 ( 80) |
| Centr.Afr.Rep. | 25 ( 30) | 34 ( 36) | 23 ( 26) | 30 ( 35) | 32 ( 38) | 33 ( 42) | 29 ( 33) | 39 ( 50) | 25 ( 34) | 46 ( 56) | 32 ( 39) |
| Chile | 35 ( 36) | 35 ( 35) | 35 ( 35) | 35 ( 35) | 35 ( 35) | 34 ( 37) | 35 ( 35) | 34 ( 39) | 34 ( 35) | 31 ( 31) | 35 ( 36) |
| Colombia | 32 ( 77) | 24 ( 69) | 15 ( 60) | 25 ( 70) | 30 ( 75) | 43 ( 88) | 27 ( 72) | 55 (100) | 34 ( 79) | 49 ( 94) | 38 ( 83) |
| Congo | 25 ( 26) | 34 ( 34) | 24 ( 26) | 30 ( 30) | 32 ( 32) | 33 ( 35) | 29 ( 30) | 39 ( 41) | 25 ( 26) | 43 ( 43) | 32 ( 33) |
| Costa Rica | 31 ( 99) | 9 ( 65) | 13 (100) | 7 ( 67) | 7 ( 42) | 27 ( 97) | 10 ( 38) | 43 (152) | 10 ( 41) | 11 ( 41) | 24 ( 92) |
| Cote d'Ivoire | 24 ( 24) | 19 ( 19) | 17 ( 18) | 15 ( 16) | 16 ( 16) | 26 ( 27) | 20 ( 21) | 34 ( 35) | 16 ( 17) | 22 ( 22) | 24 ( 25) |
| Cyprus | 16 ( 22) | 8 ( 14) | 1 ( 7) | 4 ( 10) | 5 ( 11) | 21 ( 27) | 9 ( 15) | 32 ( 38) | 11 ( 17) | 17 ( 23) | 18 ( 24) |
| Ecuador | 59 ( 68) | 34 ( 41) | 6 ( 10) | 12 ( 21) | 13 ( 25) | 40 ( 53) | 15 ( 28) | 61 ( 75) | 23 ( 34) | 28 ( 35) | 38 ( 50) |
| Egypt | 30 ( 40) | 15 ( 25) | 6 ( 17) | 12 ( 24) | 14 ( 26) | 46 ( 58) | 15 ( 27) | 73 ( 86) | 22 ( 33) | 19 ( 30) | 38 ( 49) |
| Ghana | 29 ( 29) | 30 ( 30) | 30 ( 30) | 30 ( 30) | 30 ( 30) | 30 ( 30) | 30 ( 30) | 30 ( 30) | 31 ( 31) | 29 ( 29) | 30 ( 30) |
| Guatemala | 31 ( 33) | 9 ( 39) | 11 ( 26) | 7 ( 36) | 7 ( 37) | 27 ( 56) | 11 ( 37) | 43 ( 73) | 10 ( 38) | 11 ( 41) | 24 ( 50) |
| Guyana | 19 ( 19) | 4 ( 4) | 11 ( 11) | 7 ( 7) | 8 ( 8) | 20 ( 20) | 8 ( 8) | 28 ( 28) | 15 ( 15) | 43 ( 44) | 17 ( 18) |
| Jamaica | 19 ( 19) | 4 ( 4) | 11 ( 11) | 7 ( 7) | 8 ( 8) | 20 ( 20) | 8 ( 8) | 28 ( 28) | 15 ( 15) | 43 ( 43) | 17 ( 17) |
| Korea Rep. | 28 ( 31) | 14 ( 16) | 10 ( 12) | 15 ( 17) | 18 ( 20) | 24 ( 27) | 20 ( 22) | 27 ( 30) | 21 ( 24) | 5 ( 8) | 23 ( 25) |
| Kuwait | 0 ( 0) | 4 ( 4) | 12 ( 12) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 3 ( 3) | 4 ( 4) |
| Malaysia | 10 ( 10) | 7 ( 7) | 7 ( 7) | 7 ( 7) | 8 ( 8) | 16 ( 17) | 10 ( 10) | 21 ( 23) | 11 ( 11) | 11 ( 11) | 14 ( 14) |
| Mexico | 32 ( 35) | 14 ( 16) | 8 ( 9) | 12 ( 15) | 14 ( 16) | 35 ( 38) | 19 ( 22) | 49 ( 53) | 22 ( 25) | 38 ( 41) | 30 ( 34) |
| Morocco | 31 ( 42) | 7 ( 16) | 6 ( 15) | 7 ( 16) | 8 ( 17) | 27 ( 38) | 17 ( 27) | 37 ( 48) | 19 ( 29) | 26 ( 37) | 24 ( 35) |
| Nicaragua | 31 ( 64) | 9 ( 42) | 12 ( 44) | 7 ( 39) | 7 ( 39) | 24 ( 56) | 10 ( 43) | 37 ( 69) | 10 ( 43) | 11 ( 44) | 22 ( 54) |
| Nigeria | 42 ( 42) | 29 ( 29) | 23 ( 23) | 29 ( 29) | 30 ( 30) | 38 ( 38) | 26 ( 26) | 48 ( 48) | 28 ( 28) | 34 ( 34) | 37 ( 37) |
| Oman | 1 ( 1) | 2 ( 2) | 1 ( 1) | 2 ( 2) | 2 ( 2) | 3 ( 3) | 7 ( 7) | 2 ( 2) | 2 ( 2) | 2 ( 2) | 3 ( 3) |
| Pakistan | 81 ( 90) | 48 ( 58) | 38 ( 46) | 57 ( 67) | 68 ( 78) | 84 ( 93) | 56 ( 66) | 112 (122) | 52 ( 62) | 57 ( 65) | 77 ( 87) |
| Peru | 31 ( 54) | 29 ( 53) | 12 ( 34) | 19 ( 44) | 21 ( 49) | 41 ( 71) | 25 ( 53) | 54 ( 86) | 29 ( 58) | 25 ( 50) | 36 ( 64) |
| Philippines | 35 ( 45) | 23 ( 33) | 17 ( 27) | 16 ( 26) | 17 ( 27) | 29 ( 39) | 18 ( 28) | 38 ( 48) | 23 ( 33) | 39 ( 49) | 28 ( 38) |
| Qatar | 3 ( 3) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) | 4 ( 4) |
| Saudi Arabia | 2 ( 2) | 1 ( 1) | 2 ( 2) | 1 ( 1) | 1 ( 1) | 3 ( 3) | 2 ( 2) | 4 ( 4) | 2 ( 2) | 1 ( 1) | 2 ( 3) |
| Senegal | 47 ( 47) | 41 ( 41) | 26 ( 26) | 38 ( 38) | 39 ( 39) | 38 ( 38) | 27 ( 27) | 46 ( 46) | 34 ( 34) | 41 ( 41) | 39 ( 39) |
| Singapore | 0 ( 0) | 0 ( 0) | 2 ( 2) | 0 ( 0) | 0 ( 0) | 0 ( 0) | 0 ( 0) | 1 ( 1) | 0 ( 0) | 0 ( 0) | 0 ( 0) |
| Somalia | 41 ( 43) | 27 ( 28) | 8 ( 8) | 8 ( 8) | 10 ( 10) | 32 ( 32) | 18 ( 18) | 45 ( 45) | 20 ( 20) | 50 ( 50) | 30 ( 30) |
| Sri Lanka | 50 ( 66) | 22 ( 34) | 15 ( 25) | 11 ( 21) | 9 ( 19) | 30 ( 43) | 13 ( 25) | 46 ( 61) | 14 ( 25) | 10 ( 21) | 29 ( 42) |
| Sudan | 71 ( 71) | 50 ( 50) | 25 ( 25) | 49 ( 49) | 54 ( 54) | 56 ( 56) | 32 ( 32) | 76 ( 76) | 41 ( 41) | 98 ( 98) | 57 ( 57) |
| Syrn.Arab Rep | 17 ( 30) | 8 ( 18) | 8 ( 18) | 5 ( 15) | 5 ( 15) | 16 ( 29) | 7 ( 18) | 23 ( 38) | 11 ( 22) | 19 ( 33) | 14 ( 27) |
| Thailand | 40 ( 50) | 24 ( 34) | 7 ( 17) | 13 ( 23) | 17 ( 27) | 33 ( 43) | 26 ( 36) | 41 ( 51) | 23 ( 33) | 18 ( 28) | 31 ( 41) |
| Trinidad Tobago | 19 ( 19) | 4 ( 4) | 11 ( 11) | 7 ( 7) | 8 ( 8) | 20 ( 20) | 8 ( 8) | 28 ( 28) | 15 ( 15) | 43 ( 43) | 17 ( 17) |
| Tunisia | 46 ( 50) | 17 ( 19) | 7 ( 8) | 15 ( 16) | 15 ( 17) | 35 ( 38) | 18 ( 20) | 50 ( 54) | 23 ( 25) | 26 ( 27) | 33 ( 36) |
| Untd.Arab Em | 1 ( 1) | 6 ( 6) | 6 ( 6) | 4 ( 4) | 3 ( 3) | 5 ( 5) | 4 ( 4) | 6 ( 6) | 5 ( 5) | 5 ( 5) | 4 ( 4) |
| Untd.Rp.Tanz. | 40 ( 40) | 37 ( 37) | 41 ( 41) | 20 ( 20) | 20 ( 20) | 32 ( 32) | 19 ( 19) | 37 ( 37) | 33 ( 33) | 4 ( 4) | 32 ( 32) |
| Uruguay | 34 ( 35) | 26 ( 27) | 27 ( 28) | 21 ( 22) | 20 ( 21) | 33 ( 34) | 24 ( 25) | 42 ( 43) | 25 ( 26) | 30 ( 31) | 31 ( 32) |
| Venezuela | 39 ( 39) | 34 ( 34) | 21 ( 21) | 17 ( 17) | 19 ( 19) | 30 ( 30) | 24 ( 24) | 44 ( 44) | 18 ( 18) | 17 ( 17) | 30 ( 30) |
| Zaire | 37 ( 37) | 12 ( 12) | 6 ( 6) | 15 ( 15) | 15 ( 15) | 35 ( 35) | 11 ( 11) | 49 ( 49) | 28 ( 28) | 32 ( 32) | 31 ( 31) |
| Zimbabwe | 9 ( 28) | 1 ( 19) | 2 ( 20) | 2 ( 21) | 3 ( 22) | 10 ( 28) | 2 ( 20) | 17 ( 35) | 6 ( 23) | 12 ( 22) | 9 ( 27) |

*Source:* UNCTAD computer files based on published official national sources.

*Note:* Alcoholic beverages, tobacco products and products facing specific tariffs were excluded from the averages. For the methodology and other details, see Section II, Data in the main text.

Source: Erzan et al (1987), Annex II.

## Table 2: Non-Tariff Trade Barriers in Developing Countries

*( Per = applied in a product specific manner per tariff-line; Gen = applied across the board)*

| COUNTRY | Quantitative Restrictions | | | | Other NTM's | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Licence | Quota | Prohibition | Advanced import deposit | Central bank author. | Minimun price level | Single channel for imp. |
| Algeria | Per | Per | | Per | | | | Per |
| Antigua Barb | Per | Per | | | | | | Per |
| Argentina | Per | Per | | Per | Gen | | | |
| Bahrain | Per | Per | | Per | | | | |
| Bangladesh | Per | Per | Per | Per | | | | Per |
| Barbados | Per | Per | | Per | | | Per | |
| Belize | Per | Per | | Per | | Gen | | |
| Bolivia | Per | Per | | Per | | | Per | |
| Brazil | Per | Per | | Per | | | Per | Per |
| Cent.Afr.Rep | Per/Gen | Per/Gen | Per | Per | | | Per | Per |
| Chile | Per | Per | | Per | Gen | | Per | |
| Colombia | Per | Per | Per | Per | Gen | | Per | Per |
| Congo | Per/Gen | Per/Gen | Per | Per | | | Per | Per |
| Costa Rica | Per | Per | | | | Gen [b] | | |
| Cote d'Ivoire | Per | Per | | Per | | | | |
| Cyprus | Per | Per | | Per | | | | |
| Ecuador | Per/Gen | Per/Gen | Per | Per | Per | | | |
| Egypt | Per | Per | | | Gen [b] | | | Per |
| Ghana | Gen | Gen | | | | | | Per |
| Guatemala | Per/Gen | Per | Gen [b] | Per | Gen | | | Per |
| Guyana | Per/Gen | Gen | | Per | Gen | | | Per |
| Jamaica | Per | Per | Per | Per | | | | Per |
| Korea Rep. | Per | Per | | | | | | |
| Kuwait | Per | Per | | Per | | | | Per |
| Malaysia | Per | Per | | Per | | | | |
| Mexico | Per | Per | Per | Per | | | Per | Per |
| Morocco | Per | Per | | | | Gen | | Per |
| Nicaragua | Per | Per | | | | Gen [b] | | |
| Nigeria | Per | Per | | Per | Per | Gen | | Per |
| Oman | Per | Per | | Per | | | | |
| Pakistan | Per | Per | Per | Per | | | | Per |
| Peru | Per | Per | | Per | | | | Per |
| Philippines | Per | Per | Per | Per | Gen | Per | | Per |
| Qatar | Per | Per | | Per | | | | |
| Saudi Arabia | Per | Per | | Per | | | | Per |
| Senegal | Per | Per | Per | Per | | | Per | Per |
| Singapore | Per | Per | Per | Per | | | | |
| Somalia | Per | Per | | Per | Gen | | | |
| Sri Lanka | Per | Per | Per | | | | | Per |
| Sudan | Per | Per | Per | | Gen | | | |
| Syrn.Arab Rep | Per | Per | | Per | Gen | | | Per |
| Thailand | Per | Per | | Per | | | | |
| Trinidad Tobago | Per | Per | | Per | | Per | | |
| Tunisia | Per | Per | Per | | | | | Per |
| Untd.Arab Em | Per | Per | | | | | | |
| Untd.Rp.Tanz | Gen [b] | Gen [b] | | | | | | Per |
| Uruguay | Per | Per | | Per | | | Per | Per |
| Venezuela | Per | Per | | Per | Gen | Per | | Per |
| Zaire | Per | Per | | | Gen | Per | | |
| Zimbabwe | Gen [b] | Gen [b] | | | | Gen | | Per |

*Source:* UNCTAD computer files based on published official national sources.
*Notes:*

*b* NTMs applied generally for most products (i.e. over 90 per cent), but not all products.

Source: Erzan et al (1987), Annex I.

Table 3: Trade Policy Reforms in World Bank SALs

| Reforms | East Africa | | | West Africa | | |
|---|---|---|---|---|---|---|
| | Kenya | Malawi | Mauritius | Ivory Coast | Senegal | Togo |
| **Exchange rate policy** | | | | | | |
| Maintain flexible rate | - | x | x | - | - | - |
| Have one-shot devaluation | s | x | x | - | - | - |
| **Import policy** | | | | | | |
| Lower tariffs; reduce variation in tariffs | x | - | - | x | - | - |
| Remove QRs; replace with tariffs | x | - | s | x | - | - |
| Remove licenses; simplify procedure | x | - | - | - | - | - |
| Reduce duty exemptions | x | - | - | x | - | - |
| Increase tariffs on imported inputs | - | - | x | - | x | - |
| Increase tariffs for government revenue | x | x | - | - | x | - |
| **Export policy** | | | | | | |
| Raise price of exports | x | x | x | x | s | x |
| Create/strengthen Export Promotion Unit | s | x | s | - | - | s |
| Subsidize credits; create Export Development Fund | s | - | x | x | - | - |
| Remove licenses; simplify procedure | x | - | s | - | - | x |
| Reimburse import duties to exporters | - | - | s | - | - | - |
| Subsidize exports directly | x | - | - | x | x | - |
| Introduce/improve export insurance. | s | - | - | s | - | - |
| Reduce export taxes | - | - | - | - | s | - |
| **Other** | | | | | | |
| Reduce variation in ERPs | s | - | s | s | - | - |
| Introduce/expand free trade zones/bonded warehouses | - | - | x | - | - | - |
| Do export/import substitution projects | - | - | x | - | - | s |
| Facilitate direct foreign investment | - | - | x | - | - | - |
| Assist firms with transitional problems | x | - | - | - | - | |

x Included in reform program.
s Study only.
- Not included.

Source: Meier and Steel (1987), Table 6.2.2.

Table 4: The Role of Trade Taxes

| | share of trade taxes in central government current revenue (%) | |
|---|---|---|
| | 1972 | 1982 |
| Ethiopia | 30.4 | n.a. |
| Mali | n.a. | 18.7 |
| Zaire | 57.9 | 25.0 |
| Burkina Faso | n.a. | 42.4 |
| Malawi | 20.0 | 22.7 |
| Tanzania | 21.7 | 10.2 |
| Burundi | n.a. | 24.0 |
| Uganda | 36.3 | 56.0 |
| Togo | n.a. | 33.0 |
| Gambia | 70.7 | n.a. |
| Somalia | 45.3 | n.a. |
| Central African Rep. | n.a. | 39.8 |
| Madagascar | 35.3 | 22.2 |
| Kenya | 24.3 | 25.4 |
| Sierra Leone | n.a. | 49.5 |
| Sudan | 40.5 | 49.7 |
| Ghana | 40.8 | 19.0 |
| Senegal | 30.9 | 35.0 |
| Chad | 45.2 | n.a. |
| Liberia | n.a. | 31.3 |
| Zambia | 14.3 | 8.8 |
| Lesotho | 62.9 | n.a. |
| Zimbabwe | n.a. | 11.1 |
| Swaziland | 49.7 | 57.2 |
| Botswana | 47.2 | 33.9 |
| Mauritius | n.a. | 48.6 |
| Nigeria | 17.5 | n.a. |
| Cameroon | n.a. | 26.0 |
| Congo | 26.5 | n.a. |
| Sub-Saharan weighted average | 29.7 | 25.3 |
| Lower middle-income countries | 19.3 | 14.7 |
| Upper middle-income countries | 11.4 | 10.2 |
| Industrial market economies | 1.9 | 1.2 |

Source: World Bank, 1986, Table 32.

# Economic Reforms in Africa

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## Introduction

Africa's economies are in difficulty. There can be no question but that recent unfavorable shifts in the international economic environment have lowered their rates of economic growth. But, in the face of a troubled world economy, the economies of nations in other continents have grown faster than have those in Africa. A consensus has therefore formed that important sources of Africa's economic malaise lie internal to Africa and in particular originate in Africa's politics.

This paper summarizes this new consensus. The thesis of domestic origins has been most rigorously applied to the problem of agricultural development. It may therefore be useful to focus the discussion upon this particular policy area.

The paper first summarizes the thesis and then asks: If important determinants of economic performance lie in the domestic politics of the African nations, what then are the prospects for reform?

## Thesis of Political Origins

Concerning the making of agricultural policy, the political origins thesis holds that:

1. African farmers, like farmers elsewhere, are economically rational. They respond to economic incentives.

2. Government policies undermine incentives to farmers.

3. African policy makers are themselves rational. Therefore, when they inflict economic costs, they do so because the value of the benefits exceeds the value of the costs.

4. Policy-making is dominated by politicians. It is therefore likely that the primary benefits of the policies chosen are political.

5. The origins of Africa's agricultural problems therefore lie to a great degree in domestic politics.

### Proposition 1

Estimates of crop-specific elasticities of supply for African farmers provide the evidence in support of statement "1"; they tend to be positive in sign and of a magnitude not significantly different from those recorded for farmers elsewhere.[1] Given the quantity of the evidence, the sole remaining question of

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[1]See the data collected in Hossein Askari and John Thomas Cummings, Agricultural Supply Response: A Survey of the Econometric Evidence (New York: Praeger Publishers, 1976).

any significance concerns the magnitude of the aggregate — as opposed to the crop-specific — supply responses, particularly given the constraints imposed upon African farmers by their farming technologies. I have not observed evidence pertaining directly to this issue, but word of mouth among researchers suggest that statistical estimates support the inference of high levels of aggregate price responsiveness.[2]

The histories of the major agricultural industries in Africa provide further evidence concerning the economic rationality of African farmers. Narrative accounts of the rise of the cocoa industry in Ghana, the cotton industry in Nigeria, the groundnut industry in Senegal, and mixed farming in Central and Southern Africa — all suggest that in the face of adequate economic returns, African farmers work harder; save and invest; and transform their farming practices in efforts to secure increased incomes. [3] Where African farmers have not done so, the evidence suggests, the reasons have tended to be political. The numerous studies of the decline of peasant farming in southern Africa indicate that African farmers withdrew from the commercial production of foodstuffs because they were subject to systematic policies of economic repression — policies which were designed to undercut their capacity to compete with European farmers and to render the rural areas a source of cheap labor for European farmers and the mining companies. [4]

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2 A related issue, but one which is not directly relevant, is whether under present economic conditions agricultural supplies would increase were price incentives strengthened. In the absence of farm inputs or consumer goods to buy, the argument runs, why would farmers seek to produce more in response to higher prices? Clearly, positive pricing policies are sufficient only when other elements of the farmer's economic environment are in place. But the question at issue is the farmer's desire to respond to economic incentives, not the sufficiency of price intervention.

3 See, for example, Polly Hill, The Migrant Cocoa Farmers of Southern Ghana (Cambridge: Cambridge University Press, 1963); J.S. Hogendorn, "The Origins of the Groundnut Trade in Northern Nigeria," in C. Eicher and C. Liedhom, eds. Growth and Development of the Nigerian Economy (East Lansing: Michigan State University Press, 1970); Donal B. Cruise O'Brien, The Mourides of Senegal (Oxford: Oxford University Press, 1971); and Robin Palmer, Land and Racial Domination in Rhodesia (Berkeley and Los Angeles: University of California Press, 1977). See also Kenneth R.M. Anthony, Bruce F. Johnston, William O. Jones and Victor C. Uchendu, Agricultural Change in Tropical Africa (Ithaca: Cornell University Press, 1977).

4 Palmer, Land and Racial Domination. See also Giovanni Arrighi, "The Political Economy of Rhodesia" in Essays on the Political Economy of Africa (New York: Monthly Review Press, 1973).

Proposition 2

The arguments adduced in support of proposition "2" focus upon the "low price" policies imposed upon farmers by governments. In the case of food crops, many African governments have depressed product prices by over-valuing their currencies while refusing to protect domestic markets by imposing barriers to food imports. Many also attempt to impose prices administratively, although price controls are rarely effective.[5] In the case of export crops, many African governments supplement policies of over-valuation with market regulations which tend to be effective, given the lack of alternative channels for disposing of such crops as coffee, tea, or cotton. Often the best producers of such crops can do is to evade one government's monopolistic market by selling their crops to a monopoly run by a neighboring government.[6]

While governments have sought to strengthen incentives for farmers by subsidizing the costs of farm inputs, such as fertilizers and mechanical equipment, the evidence suggests that these subsidies go to a small minority of farmers. In the face of declining revenues, moreover, such subsidies are less frequently paid.

Many policies adopted by African governments increase the prices that farmers must pay for consumer items. Governments often protect domestic industries from competition from abroad and adopt policies that restrict the level of competition within the home market. The cost of such policies are that inefficient firms survive; industries operate at high cost; and consumers must pay high prices. Farmers make up the bulk of the consuming population.

Many governments thus impose policies that lower the prices that farmers receive. Many adopt policies that increase the prices which farmers must pay for consumer items. And while they subsidize farm inputs, the benefits of such subsidies are reaped by a privileged few. Overall, then, governments in Africa often intervene in markets in ways that violate the economic interests of most farmers.

Propositions 3 and 4

Why do governments make such policy choices? Given the costs of their policies, the presumption must be that the policies are chosen for reasons other than their economic merits. According to the thesis of domestic origins, they appear to

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[5] See the data contained in United States Department of Agriculture, Food Policies and Prospects in Sub-Saharan Africa (Washington, D.C.: USDA, 1980).

[6] IBRD, Accelerated Development.

be chosen largely for political reasons. The stories offered in defense of propositions "3" and "4" differ as between food and export crops.

Food Crops

With respect to food crops, the economic policies appear to represent the terms of a political pact between governments and their urban and industrial constituents — a pact in which the costs are borne by the mass of the unorganized: the small-scale, widely scattered, rural producers. Governments intervene in markets in an effort to guarantee the availability of food supplies in sufficient abundance and at affordable prices to groups that exercise significant control over their political fates: organized consumer interests. In many countries, the armed forces and other public employees number among the most important of these interests. In effect, the economic costs incurred as a consequence of governments' efforts to control food markets represent a premium paid for political insurance. Governments devise agricultural policies so as to reduce political risks.

Reasoning suggests the power of food prices as an issue in African politics. Most citizens in Africa are poor. People everywhere seek to safeguard the real value of their incomes. Poor people spend a large proportion of their incomes on food. They therefore support policy-initiatives which seek to secure low food prices.

Low food prices are demanded not only by those who draw their incomes from wages but also by those who draw their incomes from profits; for, all else being equal, the higher the level of wages, the lower the level of profits, and food is a wages good. Low food prices are also demanded by governments. Wages represent a significant proportion of the costs of government. And unlike business, governments cannot cover the costs of wage increases by increasing prices. The issue of food prices therefore promotes the formation of a coalition between workers, industrialists and governments — a coalition whose interests in the short run sharply divide them from the interests of farmers.

This reasoning implies a testable proposition that is strikingly counterintuitive: that socialist governments should be more likely than others to seek to control the price of food. The proposition is counterintuitive because the economic costs of "low price" policies fall upon the poorest of the poor in Africa — the small-scale farmer — and the ideology of socialism justifies governmental efforts to override market forces for the sake of economic quality. But the line of reasoning developed in the political origins argument implies that political pressures are so strong that socialist governments should act in way which violate their own ethical standards. Because they aspire to provide a higher level of services, socialist governments pay larger wage bills. Because they tend to intervene more vigorously to regulate foreign investment and to promote industrial development, socialist governments tend to control more industries and therefore to be more directly affected by changes in industrial profits. They also have stronger political and organizational ties with labor movements than do governments based on non-socialist parties. Their interests as governments and as the owners of industries and the preferences they form as a consequence of their political ties with labor movements therefore should render socialist governments more likely than others to intervene in food markets. Evidence in support of the political origins hypothesis is offered in Tables 1-3, which show that the surprising implication of the argument — that political pressures are so strong as to drive socialist governments to adapt policies harmful to Africa's rural poor — tends to be born out by the data.

Export Crops

In elaborating on propositions "3" and "4", the thesis of "political origins" notes political dynamics surrounding export crops that differ sharply from those for food crops, but that also lead to the adoption of low agricultural prices. Basically, interventions in these markets appear to represent efforts at taxation.

The economics of Africa are agrarian; in many, the preponderance of foreign exchange originates from export agriculture; and it is therefore not surprising that governments in need of revenues and foreign exchange should tax export agriculture. In part, governments tax agriculture in order to secure resources for development. They use the funds to start new industries, to provide better schools, or to mount programs of health care. And in part, governments tax agriculture so as to redistribute income. They use the funds collected from farmers, the political origins argument holds, to pay the salaries of soldiers, civil servants and political elites and to subsidize urban industries.

A scarcity of data render it impossible directly to test this interpretation.[7] An indirect test is provided, however, by examining the coefficients of nominal protection, which measure the ratio of domestic to world prices. The smaller the coefficient, the further the domestic price lies below the world price. Such coefficients have been calculated for thirteen nations in Africa by the World Bank.[8] With so few observation, little can be done with the data. Nonetheless, I

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[7] But see David Bovet and Laurien Unnevehr, "Agricultural Pricing in Togo," World Bank Staff Working Paper No. 467, 1981.

[8] IBRD, Accelerated Development.

have been able to test the hypotheses that: (1) The greater the demand for public revenues, the lower the level of nominal protection. And (2) the lower the supply of public revenues from non-agricultural sources, the higher the level of nominal protection. The rationale underlying both hypotheses is that price setting behavior by African governments with respect to export crops is driven by the need for public revenues and that the disparity between domestic and international prices for exports provide a measure of agricultural taxation.

The percentage of the national labor force in public employment serves as an indicator of the level of demand for public revenues. The existence or nonexistence of commercial petroleum deposits serves as an indicator of the adequacy of revenue supplies. The results of this mini-analysis are given in Table 4. The signs of the coefficients are as predicted. The two variables account for nearly two-fifths of the variation in the pricing behavior of the thirteen African governments. Significance levels are low, however, which is not surprising, given the few numbers of observations.

**Potentials for Change**

The "political origins" thesis thus marshalls coherent arguments concerning Africa's development problems. The implications are disturbing.

<u>Learning</u>

Some students of development argue that governments can learn from past mistakes. Having perceived the social costs of their agricultural policies, these optimists contend, governments in Africa can alter their policy preferences and will now choose new policies toward agriculture.

Insofar as the thesis of domestic origins is valid, however, we must worry about the ability of governments to correct past mistakes. For, as noted in the analysis above, African governments are not free to choose whatever policies they desire. The policies that they adopt reflect the need to accommodate the interests of powerful groups in their political environment. The consequence is that while governments may learn and come to revise their preferences with respect to public policies, political considerations may make it difficult for them to alter their actual behavior.

The dilemma can be outlined more precisely using the example of food price policy. The substitution of political arrangements for market processes represents a basic element in the charter underpinning the coalition between government, labor, and industry in much of Africa. The magnitude of the dilemma facing a government which has become "enlightened" regarding the economic costs of market intervention can best be portrayed by outlining the nature of the task which it would face were it to seek to replace government controls with unregulated markets. The governments would have to change ideologies, collective visions of African history, and basic presumptions about markets and governments.

Ideologies and Lessons from History

Given the history of Africa, the introduction of markets in areas formerly controlled by governments is likely to be viewed as a triumph for private interests, not for the collective welfare. Historically, "market forces" have taken the form of the slave trade and chartered companies, agencies that embodied few of the values associated with the collective welfare. In the modern era, "neo-colonial" forces, Western capital, or those who possess the wealth or foreign exchange stand best positioned to secure the benefits to be gained from the expansion of market forces. Those who stand to loose their position of privilege as a result of policy reform will be quick to point to these particular interests and to the ways in which they may disproportionately benefit from such changes.

Well developed, clearly articulated conceptions of how markets work dominate the mentalities of educated elites in Africa. These "models" hold that economic competition results in poorer qualities of service; that unregulated markets result in exploitation; and that gains by one economic agent must result in losses to another. Patterns of government intervention in African agriculture draw their legitimacy at least in part from such beliefs. They did so in the colonial era and they continue to do so today.[9]

Not only do present patterns of government intervention in agricultural markets derive their legitimacy from notions of the behavior of markets; they also derive from theories of how development takes place. Intellectuals and members of the elite tend to believe that economic growth must be based on industrialization; that industrialization requires a reallocation of resources between town and country; that the capital for industrialization was seized from agriculture; that market-based processes of structural change promote private wealth and rural class formation; and that governmental transfers of resources between town and country are therefore to be preferred as a means of securing development. Present forms of

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[9] See S.N. Frankel, "The Tyranny of Economic Paternalism in Africa." Optima (Supplement) October 1960.

government intervention in agriculture are in part legitimated by such conceptions of the development process.[10]

There thus exist in Africa economic doctrines that must be revised before "enlightened" governments can evoke consent for more market-based agricultural policies. But the challenge of persuasion is even greater than these arguments would suggest. For also required will be a reformulation of how the social interest is best served by governments. Elsewhere in the world, key groups — hegemonic interests — dominate societies, and see the social interest as best served by minimalist governments. They form parties of the right and attempt to recruit mass support by advocating retrenchment and deregulation. Their doctrines legitimate private economic activity: trading, investment, saving, accumulating, and private enterprise.

In Africa, there exist few coherent movements of this kind. There are few, if any, parties of the right. There in no organized class demanding minimalist government. The calls for governmental retrenchment originate from foreign, not domestic, capital. Within Africa, contenders for power compete in terms of governmental activism. They recruit political support by promising more government services or services of a higher quality or at a lower price. They focus on the benefits rather than the costs of government. Their vision of the public good does not include positive images of governmental restraint.

To orchestrate changes in policies and to secure their legitimacy, political leaders may therefore have to restructure the reasoning that informs the way in which people analyse the behavior of markets, their notions of how development takes place, and their conception of the proper role of governments. They may have to organize an ideological movement of a kind not found hitherto in Africa.

Specific Economic Knowledge

All that has been discussed thus far refers to acts of public communication. It refers to the rhetoric which governments must employ when communicating with broad audiences, and in particular the intellectual community. But policy changes also require acts of persuasion that are more finely tuned. For not only must policy makers alter general beliefs and collective values; they must also persuade powerful economic interests of the merits of policy change.

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10 For examples of such reasoning see the position summarized and critiqued in René Dumont, False Start in Africa (New York: Praeger Publishers, 1969) and in Kwame Nkrumah, Ghana (New York: International Publishers, 1976).

To secure the assent of particular interests, the governments must assess and communicate the costs inflicted upon each by present policies and the benefits to be reaped by each under the new policies. Reform-minded officials must therefore possess a deep insight into the economic implications of policy changes for key interest groups in their political environment. The reformers must be able effectively to communicate to those who control their political fate the magnitude of the benefits to be gained from the gamble of policy reform over the certain (albeit low) yield from present policy commitments.

Economists from the World Bank, the IMF, and elsewhere who advocate economic reform in Africa base their arguments on models of the behavior of macro-aggregates: employment, trade balances, aggregate price levels, or rates of growth of the gross domestic product. They fail to employ micro-models that could link a change in, say, the market price for a basic foodstuff to the real value of the incomes of a particular segment of the labor force or to the revenues of a particular firm or parastatal enterprise. Those advocating reform therefore fail to furnish African political elites with the means by which to make credible arguments to key political actors. Political leaders must be provided with well researched evidence of the incidence of the costs and benefits of policy change to specific firms, sectors, or kinds of economic activity. It is not good enough to tell a Minister of Agriculture that raising the farm gate price of cotton will increase the total value of output by, say, 12%. The Minister needs to know how raising the price will affect the profits of the ginneries; the treasuries of the cooperative societies; the costs of the local textile industries; and the returns to other, competing crops.

Macro-level economic analysis is not useful knowledge for a political decision maker. Knowing the right thing to do economically does not help in knowing how to act politically. The policy maker has to be provided with micro-level knowledge of the specific distribution of the costs and benefits of macroeconomic policy changes.

Large investments in economic research are therefore required to equip policy makers with the information they need to persuade key interest groups of the merits of policy reform. It is necessary to measure the micro-level impact of policy changes on specific industries and portions of industries and on the incomes of those who supply different factors of production to them. Not only must these costs and benefits be measured; their assessment must be communicated in a knowledgeable, persuasive, and credible manner. These efforts are essential if governments are to act as leaders of policy reform.

Enforcement

The advocates of policy reform may be right. It may indeed be the case that each economic interest would be better off were public policies altered, and each key group may come to learn that in the long run its economic welfare would be improved by the adoption of new policies. But none of these interests can risk "moving first," i.e. unilaterally altering its policy position. To secure the benefits of reform requires difficult feats of political organization.

The dilemma can be outlined more precisely. Food policy can be seen as representing the terms of an alliance between labor, industry, and government, in which short run gains are achieved at the expense of rural producers. Rural producers, however, adjust in the longer run. They grow less, which leads to scarcities, higher food prices, or shortages of foreign exchange. All members of the "winning" alliance may therefore come to realize that the short run advantages of low price policies are not in the long run desirable. But no member, including government, can afford unilaterally to alter its advocacy of the present set of policies. No labor leader, for example, would demand a repeal of price controls for staple foods without first securing compensating adjustments by industry or government in the form of higher wages. Nor would industry, without some guarantee of wage restraint by labor or of protection of its profits by government. For any group to shift its position and to accede to change, it must be certain that others will make compensating adjustments. The adjustments must therefore be organized.

In securing policy reform, then, the government must be able to secure deals that convince each major interest of its ability to deliver concessions on the part of the others. The significance of this requirement can perhaps best be communicated by envisaging a scene in which, say, Kenneth Kaunda, President of the Republic of Zambia, is appealing to the leaders of the business community to accept the abolition of NAMBoard and the movement to market determined prices for maize. It is certain that business would seriously doubt Kaunda's ability to secure from labor credible commitments to withhold wage demands or to prevent work stoppages should the change in policy lead to higher food prices. The Government of Zambia simply cannot deliver such assurances. And without them, the leaders of business will be unwilling to take the lead in demanding policy reforms in agriculture.

## Conclusion

Recently, students of African development have propounded the thesis that the origins of Africa's economic malaise are internal and stem from politics.

In this paper, I have sought to stimulate debate by outlining the thesis of "domestic origins" and by extracting from it the implications for African development.

The most provocative implication of this thesis is that reform minded elites in Africa may well fail. Reform minded governments in Africa may have learned from past mistakes. But the changes in their policy preferences may not result in changes in their policy choices. For the situation within which they seek to retain power requires that in order to secure change they must alter basic beliefs and values; enlighten major groups as to where their economic interests lie; and orchestrate reciprocal economic sacrifices from them. Economic reconstruction posses daunting challenges to political leaders.

All this is not to argue that policy change will inevitably fail. Indeed, recent evidence suggests that reform minded governments can weaken the power of marketing boards, change pricing policies and seek measures that increase the incentives for farmers. But it does underscore the magnitude of the political challenge that faces those who seek to alter economic policy. The Soviet Union has produced its Gorbachev; the contemporary political leaders of China are acting as economic revolutionaries. Economies that are stagnating or in decline produce political forces seeking economic change. Rather than being viewed as the counsel of despair, this paper, then, should be viewed as an agenda for action — an outline of the challenges that face the reformer in Africa.

Table 1
**Dependent variable: probability of government regulation of the retail price of maize**

| Independent variable | Maximum likelihood estimate of profit coefficient | Ratio of MLE to standard error | Significance level[a]: Assuming t-distribution[b] | Significance level[a]: Assuming normal distribution |
|---|---|---|---|---|
| Government's ideology | | | | |
| Marxist-Leninist | 0.912 | 1.435 | 0.10 | 0.08 |
| African Socialist | 0.532 | 0.786 | -- | -- |
| Capitalist | -0.729 | -0.988 | -- | -- |
| Staple of urban consumption | 1.297 | 2.411 | 0.025 | 0.01 |
| Inflation | 0.107 | 1.414 | 0.10 | 0.08 |
| Constant | -1.776 | | | |

Estimated $R^2$ = 0.54

Proportion cases correctly predicted = 0.757

Notes: [a]One-tailed test; [b]30 degrees of freedom

## Table 2

**Dependent variable: probability of government regulation of the producer price of maize**

| Independent variable | Maximum likelihood estimate of profit coefficient | Ratio of MLE to standard error | Significance level[a] Assuming t-distribution | Assuming normal distribution |
|---|---|---|---|---|
| Government's ideology | | | | |
| Marxist-Leninist | 0.967 | 1.470 | 0.10 | 0.08 |
| African Socialist | 0.300 | 0.421 | -- | -- |
| Capitalist | -0.795 | -0.098 | -- | -- |
| Staple of urban consumption | 1.780 | 2.755 | 0.005 | 0.003 |
| Inflation | 0.106 | 1.270 | 0.12 | 0.12 |
| Constant | -1.413 | | | |

Estimated $R^2 = 0.61$

Proportion cases correctly predicted = 0.706

Notes: [a]One-tailed test; [b]30 degrees of freedom

Table 3

Dependent variable: probability of government regulation of the retail price of rice

| Independent variable | Maximum likelihood estimate of profit coefficient | Ratio of MLE to standard error | Significance level[a] | |
|---|---|---|---|---|
| | | | Assuming t-distribution[b] | Assuming normal distribution |
| Government's ideology | | | | |
| Marxist-Leninist | 1.095 | 1.266 | 0.12 | 0.12 |
| African Socialist | 1.445 | 1.498 | 0.10 | 0.08 |
| Capitalist | 0.111 | 0.153 | -- | -- |
| Staple of urban consumption | 2.265 | 3.576 | 0.005 | 0.001 |
| Inflation | 0.113 | 2.371 | 0.025 | 0.01 |
| Percentage of labor force in government service | -0.515 | -1.329 | 0.10 | 0.10 |
| Constant | -2.237 | | | |

Estimated $R^2 = 0.61$

Proportion cases correctly predicted = 0.838

Notes: [a]One-tailed test; [b]30 degrees of freedom

Table 4
Dependent variable: coefficient of nominal protection

| Independent variable | Regression coefficient | Ratio of regression coefficient to standard error | Significance level[a] |
|---|---|---|---|
| Percentage of labor force in public service | -0.241 | -2.276 | 0.025 |
| Petroleum deposits | 0.346 | 1.296 | 0.13 |
| Constant | 0.904 | | |
| Estimated $R^2 = 0.39$ | | | |

Notes: [a]One-tailed test, 10 degrees of freedom.

# Some Issues in Economic Policy Reforms in Kenya*

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* Views expressed herein are meant for debate and are purely the author's own.

## I. Development Objectives

At the attainment of political independence in 1963, Kenya was ushered into a world which believed in the "growth-and-trickle-down" approach to development, with the first United Nations Development Decade of the 1960s stipulating 5% p.a. as a target rate of growth of real national income. In keeping with this, the 1964–1970 Development Plan (revised in 1966) and the 1965 Sessional Paper on African Socialism and its Application to Planning in Kenya accepted economic growth as the most important criterion of development. Kenya set for herself the twin goals of achieving "high and growing per capita income, equitably distributed among the population"[1] and "maximization of employment opportunities."[2]

Up to 1970, the economy grew impressively at 6.9% p.a., but suffered widespread unemployment and glaring income disparities between persons, factor inputs, and geographical regions. The latter concern and the worldwide interest in "growth-with-distribution" were instrumental in the 1970–1974 Development Plan's aim "to shift the locale of growth to the rural areas".[3] The stated first priority was no longer one of investing "where it will yield the largest increase in net output"[4] but "to direct an increasing share of the total resources available to the nation towards the rural areas [in the interest of] balanced economic development ... employment opportunities ... and distribution."[5] "Rural development is the basic strategy of this plan."[6]

There was no articulation of the potential trade-offs between productivity, employment, and distribution. It was taken for granted that redistribution from growth should be possible; after all the economy was still growing at close to 6% p.a., not far off the 1970–74 planned target rate of 7.4% p.a. Hard times were yet to come. So optimism shrouded the preparation of Kenya's third development plan.

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[1]Kenya, Development Plan for the Period 1970 to 1974 (Nairobi: Government Printer, 1969), p. 1.

[2]Ibid., p. 6.

[3]Kenya, Development Plan: 1974–1978 (Nairobi: Government Printer, 1973), p. 92.

[4]Kenya, African Socialism and its Application to Planning in Kenya (Nairobi: Government Printer, 1965), p. 46.

[5]Kenya, Development Plan: 1970–74, p. 2.

[6]Ibid., p. iv.

The 1974–1978 Development Plan "differs from previous plans ... in the overall emphasis given to employment problems, in the degree to which employment policy is articulated and, finally, in its lesser reliance upon economic growth alone as an instrument of job creation and income redistribution."[7] Redistribution has always and everywhere proved difficult due to the structural nature of poverty.

The 1979–1983 Development Plan addressed itself to "the alleviation of poverty by creating more income-earning opportunities, increasing the output and quality of services provided by Government, and improving income distribution throughout the nation."[8] Prime among those services were education, health, water, roads, and shelter. Disadvantaged groups were identified as targets for "access to opportunities";[9] these are pastoralists, small farmers, the landless, the urban poor and the handicapped. The plan, then, contains an early recognition of a minimally guaranteed availability of basic needs for vulnerable groups.

## II. Economic Challenges

Constraints on Kenya's economic achievements have arisen due to, inter alia:

(a) The jolts by increases in oil prices, particularly in 1973 and 1979.

(b) Rising costs of imported capital and intermediate goods.

(c) Erratic and generally declining prices of major exports, namely coffee and tea.

(d) Increasing population pressure

(e) The periodic droughts such as in 1974 and 1984.

These constraints lead to, and manifest themselves in such forms[10] as:

(a) Worsening balance of trade deficit, with trade gap tripling from around 3% of GDP in the 1960s to about 9% in the 1980s.

(b) Declining rates of growth of national income in total (from 7% p.a. to 3% p.a.) and in per capita terms (4% p.a. to -1% p.a.).

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[7]Kenya, Development Plan: 1974–1978, p. 92.

[8]Kenya, Development Plan: 1979–1983 (Nairobi: Government Printer, 1979), p. iii.

[9]Ibid., p. 22

[10]The statistics cited are from diverse national and international sources.

(c) Rising government budgetary deficits at 4% of national income in 1972, to 8% in 1982, and 7% in 1986.

(d) Worsening savings–investment gap, from a surplus of 1% of GDP in 1965 to a deficit of 2% of GDP in 1983.

(e) Inflationary rate jumping from around 2% p.a. in the 1965–73 period to 10% in the 1980–86 period.

(f) International indebtedness which rose from a modest U.S. $319 million in 1970 to U.S. $4.5 billion in 1986, with debt service ratio rising from 5% of exports to 23% during this period.

Resource scarcity is evidenced by the worsening savings and trade gaps which have led inexorably to a major debt crisis and increasing reliance on external resources. The "business as usual" approach could not be continued and the 1984–1988 Development Plan[11] adopted "mobilising domestic resources for equitable development" as its theme. Together with the Sessional Paper Number 1 of 1986 on Economic Management for Renewed Growth,[12] the plan calls for the mobilization of those resources which are available and generatable. Both call for cost–sharing between the beneficiaries and the government in such areas as education, health, and water; budget rationalisation to reduce the share of salaries and increase the share of complementary inputs (transport, paper, etc) in order to boost productivity within government; creating an enabling environment for the flourishing of the private sector; district focus for rural development; price adjustments; and institutional reforms.

## III. Policy Options

Faced with a fall in real resources, Kenya in the 1980s had to embark on a process of stabilisation and structural adjustment. Austerity calls for prioritising: what is essential and urgent, necessary but postponable, desirable but postponable, and what is dispensable and can be cut out? The alternative to setting priorities is to do everything less well.

Great impetus to stabilisation and structural adjustment policies has been brought about by the goading of aid donors, both bilateral and multilateral. The International Monetary Fund (IMF) and the World Bank have been particularly

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[11] Kenya, Development Plan: 1984–1988. (Nairobi: Government Printer, 1983), p. ix.

[12] Kenya, Economic Management for Renewed Growth (Nairobi: Government Printer, 1986). This is a perspective plan for the period 1986–2000.

instrumental. The two have, for example, insisted on "getting the prices right" as a condition to granting loans. Again, as part of their "policy dialogue", a number of reforms have been put in place. To some of these "conditionalities" we now turn.

3.1 Policy on Product Prices

The general feeling is that prices should find their own levels, reflecting the forces of supply and demand. Price controls are usually self-defeating, since they tend to lead to artificial shortages which give rise to rationing, favoritism, high parallel-market prices, etc. The surest way to keep prices low is to increase supply. If this is done through subsidies, issues of budgetary adequacy are insurmountable.

One line of attack is to encourage the setting up of productive enterprises by providing information on possible business ventures, judicious application of anti-trust regulations to discourage action in restraint of trade, and speeding up the process of setting up business. While the Investment Promotion Centre (IPC), as a one-stop office, has promised to have answers on the necessary licences and permits to a potential investor within three months, it should be noted that this is still relatively slow when compared to, say, the newly industrialising nations (NICs) of Asia. If it takes only up to three days for such action in Singapore, Taiwan or South Korea, Kenya could do it in thirty.

3.2 International Trade Policies

Trade liberalisation is pursued through elimination of import quotas, rationalisation of tariffs, and adjustment of foreign exchange rates. There has been a steady but substantial devaluation of the Kenya Shilling, not just in nominal but also in real terms. Yet, the balance of trade continues to be precarious. Due to the prevalence of this phenomenon, the IMF itself has stated: "Questions have therefore been raised as to whether the response of trade flows to changes in relative prices may now be weaker than it once was. Alternatively, there may be other factors working to offset the effects of exchange rate movements on trade flows .... it is clear that there is no simple relationship between developments in real exchange rates and in current account balances."[13]

There is a need to look at other factors which affect international trade such as the supply and demand elasticities, trade restrictions, fiscal and montary policies, exporters' profit margins, and market penetration. There is also need to explore

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[13]IMF, World Economic Outlook (April 1988), pp. 69 and 73.

areas of efficient import substitution, particularly in the production of capital and producer (intermediate) goods.

Strengthening the balance of payments position is better achieved, not by imports "strangulation" since these may be necessary inputs in production, but by boosting exports. In this connection, foreign exchange losses incurred by private enterprises as a result of devaluation should be tax allowable and the manufacturing-in-bond scheme should be complemented by the development of full-fledged export free zones and an export credit guarantee scheme. It may also be worth exploring the impact on exports of allowing exporters to retain a certain proportion (say 15%) of their foreign exchange earnings for their imports. This might be a cost-effective way of promoting exports.

### 3.3 Savings and Investment

The average bank deposit rate has risen from around 5% p.a. in 1980 to 11% in 1986, even if partly as a result, the savings rate has risen from 19% of GDP in 1983 to about 26% in 1986. This is to be expected. In the meantime, gross domestic investment has risen from 21% of GDP in 1983 to 26% in 1986 — this in spite of the average bank lending rate's having risen from 11% p.a. in 1980 to 14% in 1986.

Going by the observations above, two issues cry for answers. First, what is the role of interest rate adjustment vis-à-vis other factors in the savings-investment process? Second, the fact that GDP grew at a lower rate between 1980 and 1986 (3.4% p.a.) than between 1973 and 1983 (4.6% p.a.) — even in the face of rising investment rates — raises doubts as to how efficiently such resources are deployed. Decline of overall growth performance was apparently not necessarily due to reduced investment, both local and foreign.

### 3.4 Sectoral Policies

There has not been substantial structural transformation in the Kenyan economy. Manufacturing remained virtually stagnant at between 11% and 12% of GDP between 1965 and 1986. Similarly did the not-so-dynamic non-manufacturing industry which maintained its share of GDP at 7% in 1965 and 8% in 1986. Material product (agriculture plus industry) fell as a proportion of GDP from 53% in 1965 to 50% in 1986. Is the economy losing ground by moving from the sphere of production to one of circulation, from a production economy to a merchant economy?

Domestic terms of trade have been favourable to agriculture,[14] having moved from an index of 100 in 1982 to 106 in 1986. Yet, the index of food production per caput fell[15] from 100 in 1979/81 to 87 in 1984/86. Could this be due to policy preoccupation with export crops — to earn foreign exchange — at the expense of food production? Or could this be due to a diminished profit prospect at the farm level, maybe as a result of marketing intermediation which raises costs and/or negates prompt payment for farm produce? Or could this have arisen as a consequence of our land inheritance system which allows subdivision even to uneconomic sizes, this being increasingly so with rising population pressure? Or is it due to some other causes? This is an important issue which needs to be addressed.

### 3.5 Public Finance

Central government budgetary deficit has risen from 4% of GNP in 1972 to 7% in 1986. This may be a reflection of weak response of government tax revenue to the tax base and of a narrow tax base, just as much as it reflects pressure to spend. To reduce fiscal deficits, action needs to be taken to raise more revenue, by for example improving tax administration, and to cut public spending in non-priority areas (retrenchment).

Some state-owned enterprises (SOEs) have consistently been a drain on the treasury. This has prompted a call for the government to divest these investments. This entails, in the words of the Ndegwa Commission,[16] the government's doing what it can do well and leaving to others what they can do better. This is a clarion call for allocative efficiency. Privatisation, however, has a number of hitches. First, unless an enterprise is making losses purely as a result of demoralisation of staff and inefficiency arising out of political interference, mere change of ownership will not guarantee prosperity and private investors will shy away. Second, where market size is limited, the nature of competition would at best be oligopolistic, if the market does not remain a pure monopoly. In such an event, the private producer is more likely than the parastatal producer to exploit the latent

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[14]Kenya, Economic Survey (Nairobi: Central Bureau of Statistics, 1988), p. 93.

[15]World Bank, World Development Report (New York: Oxford University Press, 1988), p. 234.

[16]Kenya, Report of the Working Party on Government Expenditures (Chairman P. Ndegwa), (Nairobi: Government Printer, 1982).

monopoly power, and the outcome would be less socially preferred in terms of price and output, although commendable in terms of private financial profitability.

Nevertheless, in general, the government should refrain from being involved in direct production or marketing of non-infrastructural goods and services. In this connection, the Kenya National Trading Corporation (KNTC) should stop local distribution of manufactured items such as bicycles, spray guns, etc. These should be left to private distributors, leaving the KNTC to engage in state trading. By so doing, KNTC might end the prevalent overinvoicing of imports and underinvoicing of exports. This would enhance Kenya's gain in international trade.

In 1986, Kenya spent about 20% of total government (current and capital) expenditure on education and about 7% on health. About 40% of the recurrent budget goes to education. In spite of the Sessional Paper No. 1 of 1986's targeting to reduce that share to 29% by the year 2000, concern has been expressed as to the sustainability of such a burden on public coffers; hence the policy of "cost sharing". This approach is hinged on the principle of "benefits-approach" to public revenue collection. Unfortunately, cost-sharing might violate the principle of "ability-to-pay". Unless there is selective targeting of some of the basic needs to the poor, serious erosion of equity in access to services will arise. Consequently, acquisition of human capital would be unequal, thus differentially affecting income-earning capability and would lead to exacerbation of inequality in income distribution. Clearly, there is need to ameliorate the adverse effects of strucutral adjustment and stabilisation. Failure to do so could lead to increasing marginalization of the disadvantaged.

## IV. Assay at Attribution

Typically, factors contributing to adverse or otherwise development experience could be classified as exogenous, external or internal. Exogenous factors are the acts of nature, like drought; external ones originate from the rest of the world, for example collapse of commodity markets; and internal factors are those controllable by domestic policy makers, for instance agricultural price support. The three sets of factors are not necessarily exclusive, but interact and affect each other in varying degrees, so that there are direct and indirect effects. Such effects could be immediate or delayed, showing up with various time lags. To avoid the fallacy of incomplete analysis, it is desirable to have continuous modelling capability available to policy makers in order to facilitate informed policy actions. Are the planning models so far in use, adequate to take into account all the factors involved, economic, social, political?

Some other strands in attribution are: To what extent could Kenya's inflation be described as "imported"? Has the pattern of development so far been due to or in spite of development planning? To what extent has our planning machinery anticipated, rather than reacted to, our major socio-economic problems? To what extent has the structural adjustment program been as a result of external donor conditionality to the granting of funds, or due to our own initiative emanating from an independent assessment and choice of our priorities? Or would we be talking the same language, doing the same things in the same way, anyway? In any case, is the economy undergoing "normal" structural change and transformation (à la Kuznets[17]), or responding more to the economic engineering of strucutral adjustment?

## V. The End as the Beginning

Are we asking the right questions in the right way? Do we have the answers to all the questions? The debate and the search continue.

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[17]Simon Kuznets, Economic Growth and Structure (London: Heinemann Educational Books, 1966).

# Economic Reform in Ghana

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## I. Preamble

There have been a number of attempts at economic reform throughout the economic history of Ghana. Most of the earlier attempts concentrated on short-term macroeconomic stabilization involving fiscal, monetary and exchange rate policies. But perhaps the most dramatic reforms are those associated with the Economic Recovery Program (ERP) currently in progress. The centerpiece of this reform program is the market-determined and liberalized exchange rate regime. This is believed to have produced a far-reaching, economy-wide realignment of relative prices, which has been reflected in higher real producer prices for export commodities and has dampened consumer import demand with improvements in the balance of payments.

The Economic Recovery Program initiated in late 1983 has so far undergone three essential phases. The period 1984-86 corresponds to the short-term stabilization phase during which contractionary fiscal and monetary policies were combined with drastic depreciation of the local currency to redress the chronic budget and balance of payments deficits as well as the spiralling inflationary situation. The first phase was extended to a medium-term phase (1986-88) reflecting a period of structural adjustment with growth. This phase has been characterized by rehabilitation of the main infrastructures, agricultural and industrial sectors as well as the financial sector and the public enterprises. The third phase, which is currently in progress, will constitute a period of long-term sustained growth and development which will be characterized by adjustment with the human factor. The initial step in this long-term adjustment process will be the implementation of a comprehensive two-year program for mitigating the social costs of adjustment (PAMSCAD). Before elaborating on this reform program, a bit of background economic history should be useful.

## II. Ghana's Past Growth Path and Reform

The profile of Ghana's past growth path is presented in the table below. The country attained independence in 1957 and since then has experienced a total of eight different political regimes, five of which were the result of coups d'état.

The pre- and post-independence era (1955-60) can be identified as a period of export-led growth. All key economic indicators registered positive average annual growth rates, all of which may have been led by the buoyant export performance. The second half of the first republic (1960-65) exhibited for the first time the rigidities and distortions of a control regime. The controls introduced in 1961-62

Table 1

GHANA
SELECTED LEADING ECONOMIC INDICATORS
Average Growth Rates (% per annum) 1955-86

| | 1955-60 | 1960-65 | 1966-70 | 1970-80 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986[a] |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Real GDP | 4.4 | 3.5 | 3.1 | 0.2 | -3.8 | -6.1 | -2.9 | 7.6 | 5.1 | 5.3 |
| 2. Real GDP per capita | 1.8 | 0.9 | 0.5 | -2.4 | -6.4 | -8.7 | -5.7 | 5.0 | 2.5 | 2.7 |
| 3. Consumer Price Index | 1.9 | 10.9 | 4.3 | 34.8 | 116.5 | 22.3 | 121.9 | 40.2 | 19.5 | 33.3 |
| 4. Merchandize Exports (f.o.b.) | 8.8 | -0.8 | 5.7 | -0.8 | -35.6 | -9.8 | -35.5 | 28.9 | 11.1 | 21.9 |
| 5. Merchandize Imports (f.o.b.) | 12.3 | 4.7 | -3.2 | -5.1 | 5.1 | -38.2 | -1.8 | 23.2 | 8.1 | 9.0 |
| 6. Agriculture | 6.5 | NA | 3.9 | -1.2 | -2.6 | -3.3 | -5.7 | 10.2 | 0.8 | 5.3 |
| 7. Industry | 6.6 | NA | 6.1 | -1.2 | -16.0 | -17.0 | -12.5 | 7.3 | 18.0 | 6.4 |

Source: Table 1 in Quarcoo, P.K. (1988) "A Case Study on Ghana's Trade Performance". Paper prepared for the Rockefeller Foundation/Commonwealth Secretariat Project on Trade and Development in sub-Saharan Africa.

a: Provisional estimate
NA: Not Available

included import licensing, exchange controls, as well as price and wage controls. The outward-oriented development strategy of the previous period gave way to an inward-oriented import-substitution industrialization strategy, with active state participation and heavy dependence on imported equipment. This depleted accumulated foreign exchange reserves from about U.S. $450 million in 1960 to some U.S. $50 million by the end of 1965. There is therefore a wide concensus among students of Ghana's political economic history that deterioration later in economic performance over the 1970s and early 1980s has its roots in the policies of the post-independence period.

The period 1966-70 witnessed the first military take-over followed by a civilian administration it sponsored. Both regimes followed pragmatic, liberal, and orthodox stabilization policies to remove the distortions in production, exchange, and trade brought about by the control regime of the previous period. Prices and wages were decontrolled and most imports were placed on open general license.

The decade 1970-80 and the early 1980s will always be remembered as the period of decline. All the key economic indicators showed negative growth rates. The civilian government of the third republic was overthrown early in 1972 after announcing an austerity budget and an excessive devaluation to counter the sharp fall in export revenues due to the slump in world cocoa prices. The new military government revalued the local currency, re-introduced the control regime with import licenses, tariffs, exchange and price controls. Compounding these inefficient domestic policies were several exogenous factors which aggravated the distortions over the period. Among these were the two oil price shocks, the debt crisis, major droughts, and the forced return of Ghanaians expelled from Nigeria. Real GDP and per capita income declined. Inflation accelerated to rates of 117 and 122 percent in 1981 and 1983 respectively. The real effective exchange rate appreciated over 1,200 percent during 1972-82. Strong disincentives developed for production and exports, and this tended to pull resources towards retail trade, smuggling, and other rent-seeking activities. By 1982, the parallel market economy was estimated to be over 30 percent of official GDP and the black market premium for foreign exchange was in excess of 2,000 percent. At the height of the crisis in 1983, capacity utilization in industry had been reduced to below 20 percent, roads and other infrastructure were in serious disrepair, and there was widespread chronic and acute shortages of spare parts, raw materials and petroleum. It was in this atmosphere that the present military government felt compelled to sign the IMF/World Bank sponsored Economic Recovery Program.

Clearly, as convincingly demonstrated by the above table, the reforms have yielded significant dividends. As if by a miracle, all key economic indicators turned positive growth rates once again. This may have been led perhaps by the dramatic export boom stimulated by producer price incentives resulting from the new liberalized exchange rate regime.

As noted earlier, the new exchange rate system is the centerpiece and cornerstone of the reforms. It consists of a dual exchange rate system, which in September 1986 included a foreign exchange auction at which the rate was market-determined while a limited set of transactions (oil imports, debt repayments, cocoa exports) were still subject to a fixed rate. Since then, the system has been dramatically revolutionized. As of September 1988, while in principle there is still a dual exchange rate system, effectively it is rapidly developing into a unified, free, and perfectly competitive market in foreign exchange. The weekly auction still prevails, but in addition, over 40 private forex bureaux have been licensed and opened, and are doing brisk business trading the Ghanaian Cedi against all foreign currencies in the open market. Led by the government-owned Ghana Commerical Bank, many banks have opened their own forex bureaux and are transferring foreign remittances to beneficiaries in Ghana at the exchange rate determined day by day, if not minute by minute, at the free and open general market. The effect of the new reforms is obvious to even the casual observer. Economic activity has been re-energized; there is new construction and rehabilitation of the infrastructure; the stores are full; and there are no shortages of spare parts, raw materials or consumer durables. The positive growth rates shown by the key economic indicators seem to confirm this general observation.

**III. Reforms for Growth and Development**

It is, however, now generally agreed, even among the donor agencies and multilateral financial organizations, including the IMF and the World Bank, that long term structural adjustment and development cannot occur if the human factor is ignored and neglected. It is this realization which has generated the preoccupation throughout the past year and the present for emphasis on the concept of adjustment with the human face.

After recording impressive growth rates in the short-term economic indicators as examined above, there is a general presumption that the gains of ERP have not, and are not, trickling down to some segments of the population as originally anticipated. If anything, there has been deterioration in the living standards of some vulnerable groups during the process of structural adjustment. These vulnerable groups are represented by the following:

- o rural poor, disguised unemployed and peasant farmers,
- o urban poor and under- or unemployed,
- o retrenched workers from the public sector and public enterprises divested,
- o poor households of malnourished children and women.

The Ghanaian authorities therefore decided to design a comprehensive program of assistance targeted at these vulnerable groups with the support of the UNDP, UNICEF, World Bank, IFAD, and WHO, among others. The program is nicknamed PAMSCAD representing "Program for Mitigating the Social Costs of Adjustment". At a donors' meeting called to present the program, the international financial community pledged U.S. $85 million, far in excess of the U.S. $83.88 million requested. This demonstrates their willingness and enthusiasm to endorse such a program with its potential public relations and demonstration effects.

The projects for PAMSCAD were selected for their strong poverty focus, modest input requirements, ease and speed, as well as for their high visibility and maximum publicity. As designed, PAMSCAD is a two-year program, but it is anticipated that the projects initiated will be sustained and subsequently integrated within the national development plans and financed through the government's annual capital and recurrent budgets. Over the next two-year period, the projected benefits are expected to include the following:

- o creation of 40,000 new jobs,
- o easing of hardships for 45,000 out of the 81,000 to be retrenched by ERP,
- o supplementary feeding of 15,000 malnourished children,
- o safe drinking water for 600,000 rural people.

These benefits are to be achieved through community initiative projects, employment generating projects, projects emphasizing redeployment of labour as well as projects focusing on basic needs.

The community initiative type of projects are characterized mainly by those self-help projects initiated by communities themselves, such as for repair of wells, road, schools, and clinics. The communities usually provide their own contributions in the form of labour and raw materials. To these would be added PAMSCAD funds to purchase equipment, provide technical assistance and supervision. The projects in this sector also include non-formal or adult mass education. Funds will also be provided for institutional strengthening of District Councils which are charged with monitoring and coordinating the various projects at the district level.

The employment generation aspects of PAMSCAD emphasize labour-intensive projects even where modern technology requires the use of heavy capital equipment. Thus, specific projects envisaged for this sector include food for work projects (particularly in the North of Ghana), priority public works such as labour-intensive feeder road networks and rehabilitation of schools, hospitals/clinics, and social centers. The projects also include small scale mining of diamonds and gold, credit for small farmers and businessmen, as well as enhanced opportunities for women.

Special consideration is given to retrenched workers and civil servants from the public sector, as well as those laid off through divestiture and privatization of public enterprises. A one-time compensation package for repatriation is programmed. Provision is also made for information, placement, and counselling services. There are also training and retraining schemes for acquisition of skills in demand. In addition, there will be food for settlement programs in which retrenched civil servants, for example, will be allocated farming land and food aid during the planting and growing season before the harvests.

The social and basic needs of particularly the rural poor constitute the priority concern of PAMSCAD. In light of this, provision is made for funding rural water supply and environmental sanitation, essential drugs supply, supplementary feeding and deworming of rural school children, paper commodity aid and other supplies for rural schools, and rural shelter rehabilitation including improved building materials.

PAMSCAD therefore would provide directly for the basic needs of the disadvantaged and vulnerable groups, rather than waiting for this to trickle down from the general improvements in the macroeconomy. In addition, the reforms will create jobs, provide health, education, and training in new skills which would contribute to raising incomes, welfare, and hence long-term growth and development of the entire population.

# Public Sector Reforms in Nigeria

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Until yesterday night at the reception when Prof. Wilson asked if I would agree to make a country presentation, I had no knowledge that I was going to be asked to speak at this seminar about the reforms in my country, Nigeria. Without the benefit of reference materials, I am going to have to depend on my memory and if the presentation appears sketchy, you now know why. I think it is important also to make it clear that the views I will express are my personal views, unrehearsed and perhaps in some cases uncorraborated. Before I go into the details of the Public Sector reforms undertaken in Nigeria, I should give you a brief background of the structure of our national Economy.

## The Structure of the Economy

Nigeria is a West African Republic with an area of about 925,00 sq. kilometers and a population of over 100 million; it is easily the largest market for consumer goods in black Africa. Its large area and population as well as its diversified natural and human resources are indicative of the country's great potential for rapid economic development.

The country operates a mixed economy in which government and the private sectors are actively involved in the national development efforts, with the former occupying the commanding heights of the national economy, particularly the utilities, petroleum and mining, petro-chemical and basic industries. The private sector is dominant in agriculture and in agro-allied industries, consumer goods manufacture, commerce, and construction. Both government and private businessmen (including foreigners) jointly own and operate banking, insurance, and several manufacturing enterprises. The public sector almost crowded out the private sector during the heady days of the oil boom, when money was no problem but how to spend it.

## The Economic Crisis

The policies pursued particularly during the 1970s and the early 1980s led to structural changes which made the economy extremely vulnerable to external shocks. Rural-urban migration which intensified in the wake of the "oil boom", as well as inappropriate pricing and exchange rate policies had taken their toll on the agricultural sector, with the result that its contribution to gross domestic product (GDP) had shrunk from about 40% in the early 1970s to not more than 20% in 1984. Defective structure of incentives paved the way for a manufacturing sector which had low value added. Consequently, the economy became progressively dependent on crude oil, accounting for over 22% of GDP, 81% of government revenue and about 96% of export earnings at the beginning of the 1980s. Inordinate government intervention in the economy also led to a multiplicity of parastatals, most of which depended on subventions from the treasury and were thus a burden on government finances, which for most of the 1980s were in poor shape with the Federal budget deficit as high as 11.6% of GDP.

The upshot of these developments was the emergence of a maladjusted economy characterised by distortion in price-cost relations, import-oriented national expenditure and production, and a grossly over-valued national currency. All of these together, with the collapse of the world oil market, led to external payments problems evidenced by a dramatic decline in the country's external reserves, import compression with attendant shortages of inputs and other vital commodities, under-utilisation of installed industrial capacity, substantial decline in output, increased level of unemployment, accumulation of external payments arrears, unsustainably high debt-service ratio, and the intensification of trade and exchange controls with their associated economic ills. In spite of the valiant efforts by the civilian government to revamp the economy, the situation continued to deteriorate. In 1982 the country introduced austerity measures and sought the assistance of the IMF and the World Bank for balance of payment support and long term facilities for structural adjustments, respectively.

**Austerity Measures and Structural Adjustment Program**

The deteriorating economic situation resulted in the overthrow of the civilian administration on December 31, 1983. The new military administration maintained the austerity measures introduced by the defunct civilian administration, including negotiations with the IMF and the World Bank. It placed all imports in licence, stopped all major public works, significantly curtailed subventions to parastatal institutions, restructured expenditure policies to achieve fiscal balancing, and embarked on a massive retrenchment of staff to improve efficiency in the public sector. In the short run, these measures created widespread hardship and misery to the populace, and resulted in high prices for consumer goods.

The change in national leadership in August, 1985 paved the way for an open debate on the Government's economic policies, particularly the issue of the IMF loan. The nation rejected the IMF loan. In its place, the government introduced a well-articulated program of structural adjustment consisting of five principal elements:

1. Rescheduling of the nation's external debts to reduce the heavy burden created by bunching.
2. The correction of the observed over-valuation of the national currency (the Naira) through a market-determined exchange rate, as against the managed rate policy in use since 1971. This is now popularly known as the SFEM or the Second Tier Foreign Exchange Market.
3. Rationalisation of public enterprises in order to achieve greater efficiency and relieving the burden of subventions.
4. Simplification of regulatory controls and greater use of market forces, aimed at removing bureaucratic red-tape-ism and official corruption.
5. Removal of subventions, particularly of petroleum products, agricultural inputs, and commodity marketing.

These programs were aimed primarily at deregulating the economy and emphasising the role of the private sector or market forces in the determination of prices and availability of goods and services. The main objectives of the Structural Adjustment Program are:

a) to diversify the economy in a way which brings agriculture to the forefront as the provider of food to the populace and of raw materials for the growing number of agro-allied industries;
b) to restructure the economy in a way which will reduce dependence on the oil sector as the principal source of foreign exchange earnings and government revenue.
c) to minimise the budget deficit and encourage financial discipline in the public sector.
d) to minimise dependence on imports and maximise local sourcing of production inputs;
e) to play down the role of government in the ownership and management of economic enterprises.

The Structural Adjustment Program (SAP) was officially launched July 1, 1986, although the most important element, the Second Tier Foreign Exchange Market (SFEM), did not take effect until October 1986. Import liberalisation through a new tariff structure and the removal of subventions on petroleum products took root much earlier at the beginning of the year, while selective privatisation of parastatals began with the agricultural sector in June 1986. The program officially came to an end on June 30, 1988, and some tentative observations may be made particularly since all the major programs have been implemented albeit in varying degrees.

The desired result of all these policies is to make Nigeria attractive to foreign investors and to control inflation. For example, the combined effect of cheapening the Naira through SFEM and of raising interest rates would, it was assumed, encourage international finance to flow into the country. But regretably, there is as yet no evidence of such capital inflow, neither from genuine foreign investors seeking to exploit the vast Nigerian market, nor the fugitive money belonging to Nigerian politicians and businessmen in foreign bank accounts. This perhaps underscores the general belief that the perceived political stability of a country is far more important in the decision matrix of investors than mere economic incentives.

Since the introduction of the Second Tier Foreign Exchange Market (SFEM) and the credit squeeze, prices of a number of imported commodities have risen substantially, almost beyond the reach of most consumers. This has produced an unprecedented consumer resistance to price hikes and resulted in low turnover in almost every industry. Such low turnovers are attributable to two main factors:

1. Low purchasing power of the populace arising from the policy to hold down wages in spite of the obvious devaluation of the purchasing power of such wages.
2. High prices sought by the sellers who seek to recover their production costs, which in many cases have gone up by as much as 500% with the introduction of the Second Tier Foreign Exchange Market (SFEM).

Essential commodities which had hitherto been hoarded are now available in the market, but there are no visible buyers largely due to their high prices. Motor vehicles for example are out of the reach of any employee no matter how high, and even bread is no longer affordable to the average worker. In a way, this has forced people to look inwards for alternatives, but the hardship cannot be washed away.

There is evidence that farm gate prices for agricultural produce have increased significantly, but whatever benefit the farmer gets is quickly lost through having to pay a lot more for his consumer goods. Indeed some urban dwellers have benefitted far more than the peasant farmers in their role as middlemen.

Although government has introduced several programs to mitigate the adverse effects of these reforms in such areas as unemployment and rise in food prices, a lot more needs to be done to alleviate the suffering of the people, caused by such reforms as the withdrawal of petroleum and fertilizer subventions, and the increase in the cost of education, electricity, telephones, airfare and of course consumer goods.

The Nigerian economic environment is changing at a very rapid pace. The choice of policy instruments, such as exchange rate, interest rates, tariffs etc., to achieve the restructuring is however leading many firms to liquidation prematurely. At the current rate of corporate casualties, it is feared that the only survivors will be multinational corporations who have no stake in the future of the country. With our low technological base and high level of unemployment, the prospects for future growth and development look quite daunting.