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

SUMMARY OF PROCEEDINGS

Revised Translation



CENTER FOR RESEARCH ON ECONOMIC DEVELOPMENT
The University of Michigan
Ann Arbor, Michigan 48109

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The Structural Adjustment Program
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SUMMARY OF PROCEEDINGS

prepared by

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

Premier Ministère et Ministère du Plan

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I. OBJECT OF THE COLLOQUIUM

In order to further internalize its program of structural adjustment, the Government of Burundi asked the United States Agency for International Development (USAID) to help it organize a symposium for Burundi officials on aspects of the country's structural adjustment program. The Government's request was well received by USAID, particularly since the U.S. Government decided during the same period to support Burundi's program of economic reform with aid for balance of payments and private sector promotion.

The conference was designed to encourage Burundi officials to discuss with each other and with foreign officials, the real life experiences of adjustment, in particular in following areas:

- a) Exchange rate policies;
- b) Agricultural price policies;
- c) Taxation and private savings;
- d) The reform of public enterprises and privatization.

II. OPENING SESSION

The work of the conference began on Wednesday the 23rd of May 1990 at 9:00 a.m., in the large conference room of the Source du Nil Hotel, under the aegis of the Ministry of Finance and the Vice-President of the Structural Adjustment Program (SAP) Monitoring Committee representing the Prime Minister and Minister of Planning.

After a word of introduction given by Mr. Salavator MATATA, Permanent Secretary of the SAP Monitoring Committee, Dr. Ernest J. WILSON, III, Director of the Center for Research on Economic Development (CRED) at the University of Michigan (U.S.A.) spoke.

Dr. WILSON expressed his pleasure at seeing this project come to fruition through the joint efforts of Burundi's Office of the Prime Minister and Ministry of Planning, the Permanent Secretariat of the SAP Monitoring Committee, and CRED, and with the financial support of USAID.

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

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

Whatever the country concerned, economic reforms have several aspects in common. In a world that is in the midst of change, it is necessary to adapt to these changes. Each country must be able to export and to import in order to fulfill the needs of its population. There are many different ways to accomplish this, and each government must find its own path.

Dr. WILSON ended by presenting the themes of the discussions to follow, and he emphasized that the conference team is international, very competent, and experienced.

The USAID Representative to Burundi, Mr. Donald F. MILLER, reminded the group that this Bujumbura conference was brought about on the initiative of the Burundi participants who attended a similar conference organized in Nairobi by CRED and financed by USAID. Such symposia are especially valuable since the sound application of structural adjustment leads to clear positive results. The already positive Burundi experience had even more to gain by considering the experiences of other countries.

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

The Minister of Finance of Burundi and Vice-President of the SAP Monitoring Committee, Mr. Gerard NIYIBIGIRA, announced the opening of the talks in the name of the Prime Minister and Minister of Planning.

The Minister of Finance wished a warm welcome to all the foreign participants and solemnly expressed the thanks and recognition of the Government to CRED, to USAID, to the EEC, to the ECA, to UNIDO and to the other foreign representatives for their support and contributions to this conference. He cited the significant roles of the World Bank, the International Monetary Fund, Japan, the EEC, Belgium, Switzerland, and Saudi Arabia who supported Burundi in its first efforts at adjustment.

Mr. NIYIBIGIRA then turned to a review of the program of adjustment initiated by Burundi at the macroeconomic as well as the sectoral levels. Despite exogenous factors that caused problems, the Government achieved encouraging results in the level of growth in GNP and control of inflation. Mr. NIYIBIGIRA also stressed that the improvement in public finance management, the increased interest in exporting, greater competition in the productive sector, also constitute positive qualitative results.

In conclusion, the Minister of Finance reflected on the themes of the conference in light of Burundi's experience. In particular, he mentioned the merits and the limits of exchange rate policies and favorable farm prices; the relation between fiscal policies and savings; and he spoke of the public sector - private sector trade-off concerning privatization policy.

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

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

Mr. DAVID expressed his personal perceptions on the origins of the SAP:

a) The relatively easy period of the 1960's was succeeded by the ambiguous 1970's, which had for a number of developing countries the effect of disguising weaknesses and permitting the delay of essential choices. The difficulties of the 1980's were made that much harder and strained, bringing to a head the profound internal and external economic disequilibria of developing countries, especially for the poorest of them. Economic and social indicators declined, sometimes below 1960's levels. The future was much less bright than before.

b) The dispersion of huge sums of money around the world increased consumption which in turn led to over-indebtedness. Many countries increased their indebtedness and investments without listening to the warning signs in their economies.

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

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

The speaker emphasized that one often encounters contradictions in CARPAS between the measures taken or to be taken, and the desired results.

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

- a) Respect the priorities of long term development.
- b) Be an integral responsibility of the government.
- c) Adapt to the specific context of each country.
- d) Assure the progressiveness of reforms.
- e) Take into consideration its social consequences.
- f) Finally, integrate it with regional coordination.

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

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

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

III.1. THE ECA POINT OF VIEW

The head of the delegation of the United Nations Commission for Africa (ECA), Professor BUGEMBE spoke next and remarked that the 1980's constituted a lost decade for Africa because the majority of economic and social indicators have become a red light for development.

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

At the social level, of most concern at this time are maternal and infant mortality; unschooled children; school children without books and notebooks; the erosion of buying power, etc.

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

Professor BUGEMBE pointed out that UNICEF remains in Africa in the forefront of social programs that seek to improve the position of disadvantaged groups and to slow down the erosion of natural resources.

He also pointed out that if adjustment is necessary, it is an error to favor macroeconomic equilibrium without pushing the transformation of socioeconomic structures.

There are also, he said, some negative political aspects in that the general population does not seem to embrace an adjustment program and yet their support is essential.

These programs also seemed not to take into consideration problems linked to the environment.

It is then necessary to ask the following questions:

- a) Why does Africa have structural problems?
- b) What is the importance of the institutional dimension?
- c) Isn't the program poorly explained?
- d) What is the reference process?
- e) What are the external factors that oppose a rapid economic recovery?
- f) What is the proportion of external aid and how should it be structured?
- g) What is the long term vision of development in Africa?

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

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

- a) CARPAS is part of a structural base;
- b) It demonstrates the necessity of social transformations without renouncing the human dimension of the economy.
- c) It re-establishes man as the principal center of interest.

While taking African realities into account, the ECA established the basic indispensable characteristics for the success of any development program. It is necessary to:

- a) Diversify and enlarge production;
- b) Improve the allocation of resources;
- c) Respond to the spending needs of populations.

A particular accent must be put on the mobilization of resources. If human resources are not improved, there will not be significant positive results – whence the equally important necessity of cleaning up the environment. The ECA thinks that military expenses could serve to improve the living conditions of the poor.

For success, it is necessary:

- a) To establish a new form of partnership between reforming and donor countries;
- b) To give African countries further assistance in the elaboration of their policies;
- c) To put a special emphasis on communication to create a greater acceptance and participation by the population in adjustment programs.

III.2. THE DEBATE ON THE ECA POINT OF VIEW

The talk by Professor BUGEMBE provoked debates and very animated comments.

The first question was on the place accorded to demographic policies in the CARPAS terms of reference. The answer was that CARPAS did not take a general position on the subject, because certain countries have demographic problems and others do not.

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

Professor BUGEMBE considered this second point very seriously. He responded that CARPAS was adopted by the African states.

Therefore, interest on the part of donors is certain. The ECA has been invited to confer with governments and parliaments. This will again be the case in July at the conference on the development of Africa that will convene at Maastricht, on the initiative of the Dutch Government.

The World Bank already recognizes in its texts that programs that do not take social issues into account are bound to fail.

Concerning the deterioration of exchange rates due to the exogenous factor of commodity prices, Professor BUGEMBE first of all remarked that one must avoid sinking into the syndrome of dependence. Countries like France and Germany were not developed by Africa. Africa will not be developed by foreign nations either.

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

- a) To cure the dependence syndrome;
- b) To try to understand the positions of the donors and to be pragmatic in analyzing their positions;
- c) To adopt a pragmatic approach in negotiations;
- d) To reevaluate external assistance to decide if it is really aiding development.

The delegate of the EEC explained that it is not because the Europeans are rich that the Africans are poor, nor the contrary. He pointed out that nonetheless resources exist in the North to aid the South in overcoming the crisis. This is the case of the funds managed by the CNUCED, STABEX or SYSMIN.

He noted in passing that the winds of change in Eastern Europe are bringing a cascade of policy transformations in Africa.

From the donor's side there are deliberations at various levels on the morality of aid. That is, European opinion is more developed than in the past. A reflection of this is the decision of the recent European summit in Dublin to build a common foreign policy. On the other hand, concluded the delegate of the EEC, policy reform in Africa could have a salutary effect in Europe against complacency.

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

This participant also pointed out the necessity for Africans to adjust themselves with the help of their neighbors. For example, at this present time, a private Burundian merchant is not interested in operating in Rwanda on the official level because of all sorts of barriers linked to economic policies applied in the two countries.

Other comments concerned two points. The first related to the eventual hierarchy in the three recommended policies by the EEC for a rapid recovery for Africa: improvement of production; regional integration; improvement of the art of governance. A second participant asked if the ECA has also defined this means of adjusting and its methods, and if it has also already evaluated the level of problems caused by reforms to the thirty countries under adjustment (privatization, devaluations, etc.).

The delegate of the EEC affirmed that in the European Community, deliberations do concern symmetrical adjustment, and the search for a permanent dialogue between North and South. It is nonetheless true, he added, that we could do without the Third World. "We are no longer all in the

same boat, because there are already numerous little boats on the sea. As, for example the 'four tigers' (South Korea, Hong Kong, Taiwan and Singapore)."

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

Concerning the hierarchy of the policies recommended by the EEC, the European delegate explained it in the following terms:

- a) Augmentation of production is indispensable because it is at the base of everything;
- b) Great importance is accorded to regional integration because it is possible to develop by selling more within Africa.
- c) It is important to develop the theory of comparative advantages because for a given country there may not be an absolute advantage. The example of negative competition that was given was that of palm oil in Nigeria and in the Ivory Coast;
- d) Concerning the improvement of the art of governing, a distinction must be made between aid to the reconstruction of Eastern Europe and aid to Africa. The first is accompanied by policy conditionality, the second is not.

The ECA, responded Professor BUCEMBE, shares the same views as the EEC, "but it is on the means that we do not agree". He commented on a question that had not been addressed to him.

- a) The participation of the population must be an integral part of our programs from their beginning;
- b) Food production must be sensitive to self-sufficiency and take into account African habits;
- c) Integration is indispensable because there are a number of small African countries which will not be able to enter the marketplace alone in the next century;
- d) The evaluation of programs must remain pragmatic.

III.3. THE UNIDO POINT OF VIEW

The representative of the United Nation Industrial Development Organization spoke of the experience of this UN organization specializing in industrial management in Africa and elsewhere. He stressed that UNIDO focuses on a few questions concerning industrialization in Africa.

A recent workshop in this area organized thematic studies on:

- a) Finance;
- b) The international market;
- c) Technological evolution.

The first observation is that agro-food businesses and textiles are the industries which have increased in value the most in Africa.

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

The conclusion is that industries did not know how to or were not able to adjust, due to lack of human resources and sound finances. It is therefore necessary to work on promoting investment which is more representative and conforms better to reality.

While it is urgent to restructure the African economy, this sets in motion a necessary but insufficient condition in the development process. Instead of a methodology which has proved burdensome, it is necessary to adopt a more philosophical approach.

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

One must also adopt a systematized process of working together, to find structuring agents from the industrial sector.

In Africa, the point of departure must be the system of working together among partners who all competing actors from the industrialization program.

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

III.4. EXPERIENCES IN TWO AFRICAN COUNTRIES

III.4.1. MADAGASCAR

The structural adjustment program of Madagascar was presented by Mr. Nirina ANDRIAMANASOA, Counselor to the President of Madagascar and former minister. He first described the economic situation of the country with a few figures.

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

All of the measures undertaken to correct this negative tendency failed and, in 1982, inflation climbed to 48%; the debt ratio had risen to 72%.

a) The Position of Rice

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

In 1972, Madagascar was a net exporter of rice. But following this, an agency was created with a monopoly on all agricultural products, SINPA. And then the infernal cycle began. As a result, in 1975, the Government was obliged to create a Ministry of Food responsible specifically for the management of rice. There was a brutal fall in production accompanied by a spectacular rise in the prices of basic Madagascar foodstuffs.

In 1983, SINPA, the Ministry of Food, and subsidies were all removed. And all has returned to order.

b) The Public Enterprise Situation

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

This experiment turned out to be a veritable economic catastrophe, a black hole for public finances, and revealed the technical incompetence of officials little prepared for management.

In 1982, the Government of Antananarivo was driven to take a series of economic recovery measures:

- i) Liquidation of non-viable enterprises;
- ii) Putting in place of a plan;
- iii) Search for private partners (notably Japan), the state playing the role of "sleeping partner";
- iv) Total liberalization of imports and exports.

c) Lessons

The speaker ended by reviewing the lessons that one can learn from Madagascar's experience:

- i) To augment production, the farmer must take risks. The farmer knows perfectly well how to adapt to new situations, for example when cooperativisation proves to be a failure.
- ii) The guidance of the SAP is a long-term exercise that requires the support of the people. The primary role must be played by the monitoring committee.
- iii) Privatization must be scrupulously prepared, because the interests of different groups enter into the game.
- iv) It is necessary to avoid creating discontented social groups that can increase instability.
- v) Creditor countries were too slow to take steps to annul the debt in order to lighten the balance of payments.
- vi) When the economic situation begins to improve, the population becomes too impatient too quickly.

- vii) Liberalization of the economy must be accompanied by that of the press and politics.
- viii) It is in developing the autonomy of women that one can act positively on the demographic explosion.

d) Present Situation

- i) in 1989, the level of exports had caught up again with that of 1979.
- ii) The liberalization of imports brought a drop in prices during which time marketing returned with the revival of advertising.
- iii) Export businesses have begun to diversify.
- iv) Foreign investors show more and more interest.
- v) With the liberalization of the economy, politics and the press have fallen into step.

e) Where is Madagascar Headed?

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

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

III.4.2 GHANA

a) The Roots of the Problem

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

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

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

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

The problem was due to the excessive application of policies of direct control of prices and credit. This control was institutionalized in 1972 and extended to cover exchange rates. These remained unchanged during several years, with the first devaluation of the "cedi" of \$30 in 1967 to a decline of nearly 300% in 1978.

Between 1978 and 1982, Ghanaian money was over-valued 445%, so that inflation climbed to 580% and commerce ran a deficit of 45%.

The over-valuation of the "cedi" signified the growing decline of cocoa, mineral and timber revenues. The elevated level of domestic inflation made the production costs of exportable goods too expensive and rendered them uncompetitive on the international market. Wedged between increasingly elevated costs of production and the fall of their revenues, the majority of planters turned to the production of basic foodstuffs which were more profitable because of their demand on the local market.

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

Certain producers operated on the local market rather than exporting, because of the over-valuation of the domestic money and the elevated rate of domestic inflation.

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

This fraud was equally favored by the considerable difference between the official level of exchange and that of the parallel market. The control of prices and the level of exchange no longer made any sense then. The merchants were able to make very significant profits.

This situation created a growing disinterest of the productive forces in agriculture and industry and was carried into the service sector.

b) The Program of Economic Recovery

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

- i) Realigning price disorders;
- ii) Restoring monetary discipline;
- iii) Lifting the infrastructure breaks;
- iv) Encouraging enterprise and producers.

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

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

The results were encouraging, but not all positive.

While the borrowing of the administration from the bank has declined, savings have not risen as expected.

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

The repatriation of numerous Ghanaians from foreign countries augmented unemployment.

c) Lessons

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

- i) It is necessary to combat the rigidity of prices, the rate of exchange and the level of interest in a systematic manner and by phases following evaluation because the elasticities are not obvious;
- ii) Liberalization must be introduced by steps, following a pragmatic approach;
- iii) The fight against inflation must take into account other parameters or it will produce recession; but if inflation remains elevated it is counter-productive to liberalizing the rate of interest and prices;
- iv) The experience of Ghana demonstrates that the step of SAP execution remains difficult especially when the Government and the people do not believe in it.

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

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

- a) It is clearly apparent that economic reform does not have a chance to succeed if it is not accompanied by adequate institutional reforms.
- b) Measures of direct control are not to be absolutely excluded. These are useful tools in the short term, but must not become entrenched, at least for the long term.
- c) Structural adjustment here helped to unblock the economy. It is however difficult to correct in two years the errors of two decades of economic mismanagement. This is a sickness which heals slowly.
- d) It is confirmed, at least in Ghana, that commercial banks do not help much in economic reform. They only used a small portion of their own capital. It is therefore necessary to reform them.
- e) Privatization is done with national and foreign savings under the form of a "joint venture". While it is difficult to stop in mid-flight, privatization proves to be a delicate exercise.
- f) Liberalization permitted the elimination of corruption linked to the privileged granting of import licenses. But power is displaced, notably toward the judicial machinery. To totally liberalize immediately is a certain disaster.
- g) The social costs of adjustment can be heavy: The delegate from Madagascar recalled that, in his country, the social effects of adjustment were perceived very late when there were already problems with feeding the population. If it were to begin anew, it would be necessary, from the beginning, to integrate the social dimension.

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

IV. SYNTHESIS OF THE DISCUSSIONS ON SPECIFIC THEMES

The conference benefited from an international gathering that guaranteed the seriousness and high level of discussion.

As foreseen, the proposed themes for analysis:

- a) Exchange rate policies;
- b) Producer price policies;
- c) Fiscal policy and its impact on private savings;
- d) The reform of public enterprises and privatization was revealed to have primordial importance for the remainder of the conference.

In light of the experiences of other countries, the debates were enriching, and essential questions were submitted to the participants who tried to give serious yet creative responses.

IV.1. EXCHANGE RATE POLICY

These debates were chaired by Mr. PLANE who had presented the previous day a paper entitled "Exchange Rate Policies in Africa and the Requirements of Stabilization and Structural Adjustment."

Discussions on this subject were essentially on the following aspects:

- a) The effects of devaluation,
- b) The use of alternative methods,
- c) Multiple exchange rates.

a) The Effects of Devaluation

It was pointed out that there are two schools that judge differently the impacts of devaluation on the economy.

For the liberal school, adjustment of exchange rates is indispensable and beneficial for stabilization and the development of the economy. This adjustment to the external value of the currency notably permits modifications in the internal price structure. These modifications are in a sense an improvement in the competitiveness of the economy.

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

The debates brought out that each of these schools had followers among the participants with respect to African economies.

In fact, it appears however that the experience of the majority of countries demonstrated positive results from the use of the exchange rate to stabilize imports, to dampen inflation, and to promote exports. Nonetheless, a single devaluation is not sufficient, it must be accompanied by other measures such as:

- i) A recovery in the net loss of capital;
- ii) Adequate monetary policy;
- iii) Realistic fiscal policy;
- iv) Dynamic commercial policy.

Also, the confidence of merchants in the official exchange rate policy is one of the indispensable conditions to its success.

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

b) Use of Alternative Methods

The problem was which other methods to use when one cannot or does not want to proceed with devaluation (the case of the 'Zone franc' where devaluation is possible, but practically un-doable because it involves several countries at one time, especially France)?

In the absence of devaluation, the renewal of competition can be achieved by a strong slowdown of monetary aggregates, more efforts in the area of public finance and the search for greater productivity in the production system, in particular through a reduction in production costs.

c) Multiple Exchange Rates

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

The experiences of certain African countries (Ghana) in the area of multiple (direct) exchange rates has not proved to be conclusive (administrative costs, fraud, corruption).

IV.2. AGRICULTURE PRICE POLICIES

The debate on the question of producer prices was organized around the lecture of Ms. SALINGER. The participants exchanged points of view on the following subjects:

- a) Questions related to subsidization;

- b) Questions related to incentive measures;
- c) Questions related to food security;
- d) Problems with the marketing of agricultural products.

a) Subsidies

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

On this question, there were two opinions. Some participants were against subsidies because they are expensive for the government, and require technical improvements.

Others considered the fact that the economies of many African countries are based on agriculture favors the direct subsidy of inputs in the short term or a better distribution can be encouraged. The subsidy of products remains a measure to be taken with caution because it can bring other harmful results, especially when these products are not directly consumed by a majority of the population, and because subsidies can be a difficult burden for governments.

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

b) Incentive Measures

Among classic incentive measures is agricultural price reform. This policy proved complex because of the difficulties linked to the measure of international reference prices. The response to the rise of prices has the inherent limitation of all reforms of agricultural producer pricing. On the side of debt reform, it would be necessary to think of measures aiming at productivity and efficiency such as research, the improvement of technology and management, and farming methods. All of these measures encourage a rise in production, and consequently, of producer revenue and producer prices.

c) Food Self-sufficiency

Food self-sufficiency remains an important factor for the harmonious development of nations because, in the case of scarcity of foodstuffs, governments must seek food aid with all the negative consequences that this can have. As African countries essentially live on agriculture, the distortion between the development of export crops and food crops is to be avoided, while at the same time respecting the principle of comparative advantage.

d) Problems with the Marketing of Agricultural Products

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

According to the experience of some participants, many products are not marketed, because if one considers all of the national production in a country, there is reason to believe that a good part of it does not appear on the market.

A few problems were raised, notably:

- i) The difficulties that arise from the liberalization principle itself. Products which originate from the South, sometimes taxed, encounter those from the North that are usually subsidized.
- ii) The marketing networks are not always improved.
- iii) Administrative constraints can constitute veritable barriers to the distribution of products and make the consumer price more expensive.
- iv) The majority of agricultural products are perishable and difficult to transport.
- v) The purchasing power of consumers can be weak, and the market sometimes remains limited.

IV.3. FISCAL POLICY AND SAVINGS

Two lectures were given on the theme of fiscal policy. The first was on theoretical observations and the second on the impact of fiscal policy on savings.

Following the two talks, several participants emphasized the necessity of reviewing the manner of taxing merchants, reviewing the method of determining the base that one can tax; the rate; considering the possibility of simplifying the law to improve the administration of taxes; the possibility of creating neutral taxes that do not create distortions; and the association of the private sector in fiscal policy discussions.

Others emphasized that a tax is only a tax when it is paid. The problem of fraud is important and tax officials should be encouraged to find ways to eliminate it, either by explaining the law better, or by changing the law.

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

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

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

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

IV.4. THE PRIVATE SECTOR AND PRIVATIZATION

The presentation by Dr. Ernest WILSON on the reform of public enterprises relied on a broad, strategic perspective on privatization and private sector promotion, rather than on a narrow one. Dr. WILSON focused on three interrelated elements.

- a) Privatization policy;
- b) Development of the private sector;
- c) Chambers of commerce and their role.

On the subject of privatization, the following points were raised by participants:

- a) All countries do not have the same capacity for privatization; it is necessary to preliminarily evaluate the capacity of the private sector to purchase public enterprises;
- b) It is not advisable to finance privatization through borrowing; in certain cases, privatization does not bring an increase in global investments from the private sector.
- c) It is sometimes preferable to establish competition before privatization;
- d) To prime privatization on a large scale, it is necessary to start with the good businesses and not with the 'lemons';
- e) Privatization must not create just a few new rich people and many new poor people;
- f) Privatization is a difficult exercise that must be well prepared to succeed.

The conference participants were very interested in the question of the promotion of the private sector. It was notably a question of redefining the respective roles of the public and private sectors of the economy. In particular the participants insisted on the necessity of developing an honest dialogue between the two sectors, such as the example of the Asian continent where the governments contribute to the promotion of the private sector through chambers of commerce and active professional associations.

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

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

V. CLOSING - SYNTHESIS

Before the closing address, Dr. Ernest WILSON, the Director of CRED, heartily thanked the co-organizer of the conference, the Permanent Secretary for the SAP Monitoring Committee, as well as the conference participants for making the conference a real success.

The closing address was given by Mr. Salvaŕ MATATA, Permanent Secretary for the SAP Monitoring Committee, in the name of the Prime Minister and Minister of Planning.

He recalled that the password, "dialogue and cooperation", so dear to the Government of the Third Burundian Republic had functioned well during the conference. Following this advice, the participating Burundian officials had learned much from the experiences of Madagascar, Ghana,

Rwanda, Uganda, Kenya and other African countries and even Asian countries, Europe and America throughout the lectures and comments by foreign participants.

The lessons to be learned from the four themes of the conference are numerous:

In the field of exchange rate policies, Mr. MATATA pointed out that among the options of the liberal, neo-structuralist and other schools, exchange rate policy is a method that can bear fruit in the stabilization of balance of payments as well as growth, in stabilizing imports and stimulating exports.

The African experiences confirm:

- a) The stabilization of imports;
- b) Less visible results at the level of exports;
- c) A negative impact on external debt;
- d) To be efficient, this policy must benefit from companion measures in monetary, fiscal and commercial policies;
- e) Concerning the use of alternative methods, the combination of the two is not exclusive, as was the case for Burundi;
- f) When using multiple rates, after examining the advantages and disadvantages, prudence requires a general consensus on their use.

Producer price policies prove to be complex, especially in the context of the world market, and cannot be detached from agricultural price policies and other administrative matters.

Producer price policies must be considered as a necessary condition to creating an interest in producing more. They must nonetheless be established carefully and certainly be accompanied by:

- a) Better extension services;
- b) Applied research;
- c) Improvement of marketing infrastructure, preservation and transformation of stock;
- d) Improvement of the administrative environment for the producer.

Concerning fiscal policy, the accent was on the necessity of simplifying the tax law and of revising assessments on merchants for:

- a) Better efficiency in recovery;
- b) Fight against fraud;
- c) Not discourage savings, investment and hiring.

The promotion of the private sector was treated in the laudable spirit of the search for efficiency.

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

The fruitful discussions which took place centered on the difficulties of steering privatization at the level of:

- a) Its financing;
- b) Its preparation;
- c) Its social impact as far as equity and employment are concerned;
- d) The training of private entrepreneurs.

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

Mr. MATATA felt that this exercise in collective reflection on structural adjustment was a great success, and it should follow that the global implications of this reform must be confirmed not merely by the need for its implementation, but by the significant and positive results that the world can share in peace and equality.

Warm thanks were addressed to all who contributed to the success of the conference, the results of which will permit the participants to better understand and guide economic reform in Burundi.