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African Alternative Framework to Structural Adjustment Programmes (AAF-SAP)
1989

The African Alternative Framework to Structural Adjustment Programme AAF-SAP, launched by African leaders in 1989, addressed the economic challenges faced by many nations in the 1980s and early 1990s. It critiqued the detrimental Structural Adjustment Programs SAPs by international financial institutions like the IMF and World Bank, advocating for a sustainable development model tailored to Africa's unique needs. The AAF-SAP prioritized human development through investments in health, education, and social services, fostering local participation in economic decision-making. It encouraged economic diversification away from primary commodities and promoted regional cooperation for enhanced trade. Acknowledging the adverse impact of external debt, the framework called for debt relief and the establishment of social safety nets to protect vulnerable populations, while highlighting environmental sustainability as essential to effective development strategies.

Questions for consideration: What motivations does UNECA present for establishing an African Alternative Framework to Structural Adjustment Programmes and what components are encompassed within the Structural Adjustment Programme? How does AAF-SAP articulate the structure of the African economy while identifying critical factors that contribute to the continent's underdevelopment and stagnation? In what ways does AAF-SAP reveal the divisions existing within the African economy and the resulting developmental implications of this disunity? Why does AAF-SAP contend that such fragmentation significantly hampers the potential to leverage the continent's abundant resource synergies and economies of scale? In which contexts does AAF-SAP indicate that this fragmentation arises from a challenging physical environment, the existence of small nation-states, and relatively low income levels? How does AAF-SAP depict Africa's socio-political landscape and its significance to the production framework? Can you summarize the benefits that AAF-SAP emphasizes within the proposed adjustment with the transformation framework and clarify how the notion of adjustment with transformation is defined in this context?

In Addis Ababa, Ethiopia,1989

Foreword

Since the adoption of the Lagos Plan of Action and the Final Act of Lagos by African Heads of State and Government in 1980, Africa's efforts to bring about fundamental socio-economic structural changes have been constantly frustrated. In addition to domestic policy shortcomings in the implementation of the necessary policy reforms, African countries have been confronted with a host of external adverse factors. Prominent among these are the continuous worsening of the international economic environment particularly with respect to the collapse in the prices of primary commodities, mounting external indebtedness and decreasing net flows of public and private resources. This situation was further compounded by deteriorating weather conditions resulting in severe and persistent drought and increasing desertification.

It is not surprising therefore that Africa's economic performance was particularly dismal since the beginning of the present decade with an average annual growth rate of GDP of only 0.4 per cent for the region as a whole during the period 1980- 1987. Per-capita income which was already low at the end of the 1970s has steadily declined by about 2.6 per cent per annum between 1980 and 1987. Such a sharp decline in the standard of living of the African population has severely and adversely affected the most vulnerable groups; namely, women, youth, the disabled and the aged.

In addition to the increasing poverty, Africa's economic crisis was also characterized by the disintegration of the productive and infrastructural facilities. Agri- cultural output and particularly food production was substantially reduced. Also, most of Africa's industries have been increasingly operating much below their installed capacities. Secondly, the physical infrastructure built during the immediate post- independence era, has, to a large extent, deteriorated due to poor maintenance and lack of renovation. Thirdly, social services and welfare, especially education, public health and sanitation, housing, and potable water, have rapidly deteriorated.

Against such a background, many countries endeavored to undertake relevant economic policy reforms. The most recent of such programmes are Africa 's Priority Programme for Economic Recovery 1986-1990 (APPER) adopted by the Organization of African Unity in 1985, and the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD). In addition , since 1980, an increasing number of African countries - over 30 as of 1988 - have adopted stabilization and structural adjustment programmes (SAPs), usually with the support of the International Monetary Fund and the World Bank. However, over time, increasing concerns started to be expressed not only with respect to the relevance of these programmes to Africa's long-term development objectives, but also with respect to their social, economic, and financial impact.

From the economic point of view, the orthodox structural adjustment pro- grammes, by their very design, assume that the classical instruments of control of money supply, credit squeeze, exchange rate and interest rate adjustments, trade liberalization etc. which may be valid in well-structured economies, could bring about positive results in African economies characterized by weak and disarticulate structures. However, there is documented evidence that in many cases sustained economic growth has not materialized, the rate of investment rather than improve has tended to decrease, budget and balance of payments deficits have tended to widen after some temporary relief and debt service obligations have become unbearable.

The social impact has even raised more doubts and questions not only at policy- making levels within and outside Africa, but also in international fora such as the forty-third session of the United Nations General Assembly during the mid-term review of UN-PAAERD. As is well known, the implementation of these programmes have entailed significant reduction of expenditures in social sectors, especially education and primary health care, as well as in the size of the public sector and para-statals with negative consequences on employment.

The overall assessment of orthodox adjustment programmes has led to the conclusion that, although these programmes aim at restoring growth, generally through the achievement of fiscal and external balances and the free play of markets forces, these objectives cannot be achieved without addressing the fundamental structural bottlenecks of African economies. Consequently, at the beginning of 1988, the ECA with the financial support of UNDP embarked on a search for an African alternative framework to structural adjustment programmes that would address simultaneously both adjustment and structural transformation problems of the African economies. This exercise received great encouragement from the General Assembly of the United Nations when, during the mid-term review of UN-PAAERD at its forty- third session, it called upon African countries to increase their efforts in the search for a viable conceptual and practical framework for economic structural adjustment programmes in keeping with the long-term development objectives and strategies at the national subregional and regional levels.

The search for such an alternative was conceived, since the beginning, as a process of extensive consultations, both within and outside Africa, and with a view to reaching a consensus among African countries, and between Africa and its bilateral and multilateral development partners. In this regard, an International Advisory Board was set up including African and non-African high officials from governments and international organizations, including the Bretton Woods institutions, with a view to providing a broad orientation of the study. It is with the same spirit of consensus- building that the preliminary findings of the study were discussed at an international workshop of African and non-African economists, held in Addis Ababa, Ethiopia, from 3 to 5 January, 1989. The very stimulating and fruitful discussions which took place at the workshop made it possible for ECA to prepare a preliminary draft for government officials of the Ministries of Finance and the Ministries of Economic Planning and Development.

At the inter-governmental level, the proposals were first examined by a meeting of senior officials of Ministries of Finance and Central Banks in Blantyre , Malawi from 28 February to 5 March 1989, and then by the Conference of African Ministers of Finance which also took place in Blantyre from 6 to 8 March 1989. The conclusions and recommendations of the ministerial conference, as contained in the Blantyre Statement, constituted substantial inputs in the revision of the proposals for presentation to the twenty-fourth session of the Commission and the fifteenth meeting of the Conference of African Ministers responsible for Economic Planning and Development which was preceded. by the meeting of the Technical Preparatory Committee of the Whole (TEP-COW). Both meetings took place in Addis Ababa from 27 March to 9 April 1989. The final stage in the consensus-building process was the joint meeting of African Ministers of Economic Planning and Development and the Ministers of Finance held in Addis Ababa, Ethiopia, on 10 April 1989 which adopted the African Alternative Framework to Structural Adjustment Programmes for Socio- Economic Recovery and Transformation (AAF-SAP). Annex II of the present document contains the joint statement issued by the Ministers at the end of their meeting while Annex III is the resolution adopting AAF-SAP.

The main thrust of AAF-SAP is its holistic nature in which the macro-economic framework, the policy directions and measures, and the implementation strategies take into account the dynamic relationships existing among all major elements related to adjustment with transformation. Thus, the dichotomy between structural adjustment and long-term development is eliminated. The alternative framework also puts great emphasis on the full mobilization and efficient utilization of domestic resources and the need to establish an enabling environment for sustainable development and to adopt a pragmatic approach between the public and private sectors. Above all, at the centre of the alternative framework is the human dimension - the recognition that it is only through the motivation and the empowerment of people as well as the ensuring of the equitable distribution of income that development can take place on a sustainable basis. An adjustment programme that marginalizes people is doomed to failure.

Three other major characteristics of AAF-SAP must also be stressed. First, it should be noted that the alternative framework is not a standard programme to be applied indiscriminately in all countries under all circumstances. On the contrary, depending on the peculiar characteristics of each individual country, AAF-SAP will be used for designing specific country programmes, selecting appropriate policy instruments and measures and adopting the relevant implementation strategy. Secondly, as a human-centered framework, AAF-SAP implies full democratization of all aspects of economic and social activities and in all stages from decision-making to implementation. Thirdly, the alternative framework calls for intensified inter-country co-operation in the designing, implementation, and monitoring of national programmes for adjustment with transformation.

Finally, as emphasized in the Joint Statement of African Ministers of Economic Planning and Development and the Ministers of Finance, AAF-SAP should constitute a basis for constructive dialogue between African countries and their development partners in the implementation and financing of country programmes. It is hoped that on the basis of such mutual understanding, the resources provided by the international community - which urgently must be significantly augmented - will lead to sustainable development through the process of adjustment with transformation thus ensuring that the 1990s will witness the socio-economic revival of Africa.

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CHAPTER I

The Structure of Africa's Political Economy

Introduction

The structure of the African economy defines the essential features of Africa's central problem of underdevelopment. The major problems of mass poverty, food shortage, low productivity, weak productive base, and backward technology that plague Africa are basic bottlenecks that arise from the structures of production, consumption, technology, employment and socio-political organization. It is therefore not possible to seek solutions to such deep-rooted problems without a structural analysis of the political economy of Africa. It is this structural focus on the African economy and attention to measures that could change the underlying structures that have been the major missing elements in past and current policies for adjustment.

An appropriate framework for such a structural analysis should be grounded, first of all, on the examination of the enabling and disenabling factors – domestic and external, historical and contemporary – which have shaped and continue to sustain Africa's underdevelopment. Naturally, there are both static and dynamic factors at play, ranging from the physical environment to socio-cultural influences as well as issues of policy and strategy. It is within this setting that the current socio-economic crisis of the region – to which all ominous pointers of social and economic retrogression attest.- should be examined. While recognizing the diversity and varying degrees of intensity of the factors behind Africa's development problematique, the present chapter concentrates mainly on those which have the most important bearing on the region's effort to grapple with the crisis.

As Africa's submission to the Special Session of the United Nations General Assembly summed it, the fundamental problem of Africa is that of "a vicious inter- action between excruciating poverty and abysmally low levels of productivity in an environment characterized by serious deficiencies in basic and social infrastructure, most especially the physical capital, research capabilities, technological know-how and human resources development that are indispensable to an integrated and dynamic economy."

Several other problems, such as inflationary pressures, instability of export earnings, balance of payments deficits, rising debt burden and a host of other exogenous factors which have a bearing on the economic performance of Africa serve to aggravate the crisis. They are the direct results of the lack of structural transformation, the rather unfavorable physical and socio-political environment of the African economies and their excessive outward orientation and dependence.

Structure of the African Economy

The structural characteristics identifiable with the pattern of production, consumption and exchange of the African economy constitute the most fundamental causes of its underdevelopment and retrogression. The most important manifestations of these are:

- the predominance of subsistence and commercial activities;
- the narrow, disarticulate production base with ill-adapted technology;
- the neglected informal sector;
- the degraded environment;

- lopsided development due to the urban bias of public policies generally and development policies in particular;
- the fragmentation of the African economy;
- the openness and excessive dependence of the economies including dependence on external factor inputs, and weak institutional capabilities.

Predominance of Subsistence and Commercial Activities

While the African economy is predominantly a subsistence economy, the non-subsistence sector is also characterized by the predominance of commercial and trading activities based mainly on imports and exports with domestic production playing a secondary role. The services sectors like banking, finance, and insurance as well as the transport sector are also oriented towards external trade.

Narrow Production Base

The production base in Africa is narrow , both in terms of size and in relation to the range of goods produced. It is also characterized by weak inter-sectoral linkages. Indeed, this production base has been contracting in the last two decades. Thus, the combined share of agriculture and manufacturing sectors in GDP declined steadily from about 50 per cent in the 1960s to only a little over 30 per cent in the 1980s.

Agriculture, on which most African countries depend primarily for employment, income, foreign exchange earnings and government revenue, is characterized by traditional production techniques and generally low level of productivity. In addition, attempts at agricultural transformation have been concentrated mainly on the export subsector while the development of the food and the raw materials subsectors has been generally neglected. While women play a crucial role in agricultural pro- duction, particularly in the food subsector, their role as producers and agents of change in the much-needed rural transformation has been severely constrained by their meagre share in the means of production (land, capital, credit, technology, etc.) and by their marginalization in production relations.

Partly as a reflection of these inadequacies and weaknesses of the agricultural production base, the industrial sector has also remained structurally weak and narrow and with insufficient internal linkages. Such weaknesses perpetuate the structural dependence of the manufacturing sector on imported factor inputs such as capital, skilled manpower, technology, and finance as well as spare parts and even raw materials. So far, only few African countries have been able to go beyond mere assembly and light industries.

There are several causal factors for the failure of African countries to transform and expand the production base. The most important of these include:
capital shortage to sustain transformation investments in the physical infrastructure, notably transport and energy as well as industries with transformational potential;
the low level of scientific and technological application in the region; shortages of trained personnel together with the poor integration of development schemes into the framework of development planning; scarcity of entrepreneurial capabilities to spearhead transformation and development; weak infrastructure; and the limited size of the private sector and institutional rigidities.

Neglect of the Informal sector

Believed to be proportionately greater than in any other region, Africa's informal sector plays a significant and growing role in economic activity, particularly in production, distribution, finance and employment creation. It is estimated to account for about 20 per cent of total output and over 20 per cent of the total labour force and these ratios are expected to rise over time. This notwithstanding, the sector is presently underdeveloped and is characterized by low productivity. In part, this is due to government policy which has so far generally neglected or discriminated against this sector. Additional impediments include poor interlinkages with the modem formal sector; competition from imported manufactures; lack of training; and limited access to more productive resources. It is important therefore to support the sector with clear policies aimed at increasing its productivity.

Environmental Degradation

The natural resource base on which the sustainability of Africa's development critically depends has been considerably and consistently eroded by natural and man- made factors. Since the relationships between the economy and the environment in Africa are more direct than in the developed countries – where technology can supplement natural resources – this problem emerges not only as an adverse physical aspect of development but, most importantly, as a macro-economic problem war- ranting urgent policy attention. The causes of this degradation are complex and varied including, notably, over-use and misuse of the soil, poor conservation policies, overgrazing, deforestation, drought, salination, river systems pollution and water-logging. The cumulative effect of these factors has resulted in reduced carrying capacity of the land at present levels of technology, reduced productivity, social dislocation and accentuation of absolute poverty in the rural areas.

African countries are quite conscious of the serious socio-economic implications of this environmental degradation and of the urgency of stemming it. Hence their commitment " . . . to implement a comprehensive programme for combating drought and desertification and to stem and control the effects of drought and desertification on both ecological environment and the development process."

Lopsided Development

Sharp contrasts exist between urban and rural areas; between towns and villages; within the urban areas and towns themselves; and among different social classes. They also exist between the extraordinarily rich and the very poor, among sectors and between regions of the same national economy. The focus of attention has tended to be, first and foremost, the modern sector and urban populations who constitute less than a third of the total.

There are thus severe imbalances in the distribution of social services and amenities between the urban and the rural areas. Even within the urban areas, there are large disparities between the urban poor and the urban rich in terms of housing, medical facilities, and education. Education and training, for instance, are largely urban-centered whereas the major segment of the production base is rural. Sector-wise, the problem presents itself as one of dualism. Africa's industry, for instance, is strongly dualistic with a formal sector which is relatively large-scale, capital-intensive, and urban-based. Cottage industry has generally been neglected. In agriculture, the export subsector is technologically and organizationally relatively well-developed whereas the traditional subsector suffers from perpetual neglect. Policies have been biased against traditional farming. Very little has been done to improve administration, transport and communications, to provide supporting institutions and to improve existing farming systems and methods in the traditional sub-sector. In fact, it has been almost totally neglected in the allocation of public investment funds . These and other biases can only result in further economic and social dislocation and discontent.

Fragmentation of the African Economy

Fragmentation of the African product and factor markets is another major constraint on the exploitation of the ample possibilities of resource complementarities and economies of scale on the continent. This fragmentation arises principally from the generally hostile physical environment and the characteristically small nation- states of Africa coupled with the relatively low levels of incomes. Of the 50 countries of developing Africa, 23 have a population of less than 5 million each and 10 of these have population of less than one million each; 13 countries have an area of less than 50 thousand square kilometers each, while 14 are land locked. Again, of the 43 Least Developed Countries (LDCs), 28 are in Africa. The uneven spatial distribution of population, especially in the geographically large countries, has inhibited the development of transport networks, thereby constraining the integration of the national economies. This, together with the structural characteristics and physical limitations that impose severe limits on the exploitation of their natural resource base, has militated against the expansion of domestic as well as regional markets and intensified the African countries' dependence on outside markets.

The various structural limitations alluded to earlier and particularly those relating to the highly concentrated nature of agricultural production, and the generally rigid production structure, have combined to render the African economy quite vulnerable to exogenous shocks. Given the fragility and openness of these economies, the increasingly unfavourable international economic climate – resulting from the volatility and collapse in commodity prices, exchange rate fluctuations, high interest rates and increased protectionism, together with the worsening of the debt situation constitutes a serious external constraint and has further aggravated the crisis.

Openness and External Dependence

The weaknesses in production base, the predominantly exchange nature of the economy and its openness have perpetuated Africa's external dependence. One of the main features of the African economy is the dominance of the external sector, which renders African economies highly susceptible to external shocks. In Africa, a few commodities often account for 80 per cent of total export earnings and government revenue. Thus, the commodity concentration of exports is not only high but rising while at the same time the decline of export volumes, the deterioration in the terms of trade and rising debt burden have intensified the resource constraints on development. *Resource leakages are also reflective of the openness and dependence of the African economy. These leakages arise principally from the manipulation of foreign trade transactions (over-invoicing of imports and under-invoicing of exports), adverse terms of trade, losses in external reserves, capital flight and brain-drain*.

It should be pointed out that while there are certainly negative implications of the openness of the African economies, this should not lead to autarky as no economy in the present world order can survive in isolation. Indeed , a degree of openness that ensures mutual benefits from the interdependence of countries is useful. It is also necessary to stress that the negative effects of the openness of the African economies should be seen only in the context of the region as a whole vis-à-vis the outside rather than in the context of individual African countries among themselves.

Lack of institutional capability

Part of the failure of the African economies to transform and expand is due to the lack of institutional capability. This could be seen either in the absence of vital institutions in the different sectors of the economy or in the inefficiency of the existing ones.

The Socio-Political Structure

The significant elements of the socio-political setting for Africa's political economy consist of the social organization, the political system, the institutional set-up, management of the economy and the cultural milieu. These factors interact with the production structure of the economy to determine the dynamism and relative viability of the development process.

Social Setting

The social setting consists of the social organization of production, its associated patterns of ownership and distribution, forms of social differentiation and the cultural milieu. The core of this setting is the social organization of production. This determines not only the narrow cycle of economic production and reproduction, but the broad social system in terms of relationships among groups and individuals. The African social structure is currently undergoing severe strains and stresses due to uncontrolled urbanization, erosion of social sanctions and values and imitative modernism. Even the much-cherished institution of the extended family is threatened by disintegration.

Today, more than ever before, the African social fabric is in danger of collapse as a result of the cumulative impact of deteriorating economic crisis. Moreover, these social relations of production also determine the differentiation of society into social groups and classes as well as the place which individuals occupy in the hierarchy of social production. There are growing differentiations based on economic and political powers. There are also social differentiations arising from linguistic affinity, gender, ancestral origin or blood relations such as those of ethnic groups or nationalities and clans. The dominant patterns define the important implications for the development process, especially in relation to the political process, equity, social mobilization, economic management, and institution building.

The cultural milieu is a major factor in the development process. It is the totality of the values, norms, attitudes, and beliefs of a society which shape its social, political and economic organizations, institutions and general feeling towards development and related issues. This is why Africa's Submission maintains that among the internal factors in the current crisis is the persistence of social values, attitudes and practices that are not always conducive to development. Such values tend to nurture cultural cleavages that make nation-building difficult, provoke cultural conflicts, and promote multiple loyalties that render efficient management as well as administrative discipline difficult. The cultural milieu also exhibits lingering problems of lack of identity and dominant values for propelling development.

The preference for foreign experts, foreign models, standards, and goods is a consequence of Africa's imitative modernism and constitutes a barrier to experimentation, innovation and self-reliant development. But not all aspects of Africa's cultural milieu are negative and problematic. There are many that are positive and could be exploited successfully for development. Examples are the implications of African perceptions of human beings as the fulcrum of development, the extended family as the nucleus for co-operative spirit and self-help development; and the traditional sanctions on leadership to ensure accountability. Indeed, one of Africa's greatest assets comprises its human resources, especially its youth.

Political Context

As stated in the Khartoum Declaration, basic rights, individual freedom and democratic participation by the majority of the population are often lacking in Africa. This pervasive lack of democracy also makes mobilization and effective accountability difficult. This is one important sense in which Africa needs more democratic political structures in order to facilitate development. As the Abuja Statement noted, Africa has to draw strength from political cohesion and new political perspectives that emphasize the democratization of the African society and increased accountability of those entrusted with responsibility. All these have critical implications for the decision-making process and leadership structures in Africa. The existing patterns of social differentiation and political organization tend to encourage a rather narrow base for decision-making and the lack of the popular debate over basic national development policies and their implementation. Hence, the Khartoum Declaration observed that "the political context for promoting healthy human development has been marred, for more than two decades, by instability, war, intolerance, restrictions on the freedom and human rights of individuals and groups as well as overconcentration of power with attendant restrictions on popular participation in decision-making". All these impose severe constraints on motivation for high productivity.

National economic management

The management of the economy in Africa has suffered greatly both on account of lack of relevant institutions and poor institution-building and development, and as a result of such basic problems as poor accountability and policy discontinuity. In recent years, public administration structures have been increasingly burdened and dominated on the one hand, by the ever-growing concern and preoccupation with short-term crisis management almost to the exclusion of long -term economic planning, and, on the other, by the increasing role of foreign experts and managers in national economic decision-making in Africa. The unfavourable external factors, such as the debt burden, have also constrained economic management. With the unending rounds of programme reviews and protracted negotiations on policy adjustments that many an African country has had to undertake with the donor community, in general, and the international financial and development institutions, in particular, as a pre- condition for balance of payments support and debt relief, the scope for independent policy-making and national economic management in Africa has gradually diminished and narrowed. Policymaking in most of Africa today is essentially on a short leash.

The efficient use of available resources is also central to the effective management of the economy . In Africa, the resources (financial, physical and human) are not always productively used, and there are considerable leakages. This is most evident in the coexistence of increasing brain drain due to high rates of unemployment of skilled manpower of even science and technology graduates while at the same time foreign experts are being brought in large numbers to Africa.

Major Implications of Africa's Political Economy for Structural Adjustment

The major implication of the foregoing analysis is that structural bottlenecks and factors constitute the issues that must be addressed by appropriate strategies, policies, and programmes. The structure of Africa 's political economy demonstrates convincingly why policy reforms aimed merely at improvements in financial balances and price structures are unlikely to succeed in bringing about economic transformation and sustained development. One principal corollary of this structural reality of the African economy is that, left to itself, it has a built-in tendency to generate crises from within and to assimilate others from abroad. Purposive and positive actions are, therefore, needed to redress the structural bottlenecks and imbalances as well as to develop the capacity to adjust to internal and external shocks. Thus, the structure of the African political economy has critical implications for the relevance of the over- whelming emphasis in adjustment programmes on achieving external and internal financial balances and getting the prices "right" through the unfettered operation of market forces.

CHAPTER II

Africa's Development Objectives

Introduction

By the late 1970s, it had become clear that international development strategies adopted during the 1960s and 1970s had not yielded the expected "trickle-down" effects on Africa's economic development. The rate of growth had remained low both in real terms and relative to those of other developing regions. Worse still, the inherited economic structures, based on primary goods production, had persisted without socio-economic and structural transformation.

It was in the light of these disappointing results that the Monrovia Strategy was adopted in 1979 by the Assembly of Heads of State and Government of the Organization of African Unity (OAU) as Africa's input into the International Development Strategy for the third United Nations Development Decade in the 1980s upon the recommendations of the Conference of Ministers of the Economic Commission for Africa (ECA) at its fourteenth meeting held in Rabat, Morocco, in March 1979. The Strategy laid great emphasis on self-reliant and self-sustained development.

In April 1980, the Assembly of Heads of State and Government of the OAU adopted the Lagos Plan of Action (LPA) for the implementation of the Monrovia Strategy. The draft of the Plan of Action which was the outcome of the ECA meetings during the first quarter of 1980 set out a number of proposals, recommendations and resolutions in such basic areas as food and agriculture, industry, transport and communications, human and natural resources, science and technology as well as regional integration, with the basic objective of attaining self-reliance and self-sustainment in those areas. The LPA was complemented by the Final Act of Lagos (FAL), the primary objective of which was to overcome the handicaps created by the extreme balkanization of the continent through the promotion of subregional economic co-operation and integration. This Final Act of Lagos had a target date for setting up an African Economic Community by the beginning of the 21st Century.

The LPA established as a primary objective the alleviation of mass poverty and improvement in the standard of living of the African people. Secondly, the concept of self-sustained development was taken as essential in view of its relation to the first objective, especially as regards such basic targets as attainment of food self-sufficiency, provision of critical goods and services, etc. Thirdly, while the LPA acknowledged the interdependence of the economies of the world, there was a realization that the balkanization of Africa necessitated the pursuance of the objective of national and regional collective self-reliance. In enumerating these three objectives, the LPA did not, however, imply that they are mutually exclusive. Indeed, it was fully understood that the three objectives had to be pursued together and that the strategies for achieving them had to take this consideration into account.

The LPA was not only geared towards achieving long-term development goals and targets, but it also took cognizance of the need for short-term actions. However, all these were seen as constituting a continuum of the long-term development and transformation process. Thus, African countries were expected to restructure and transform their social and economic structures and policies continuously with a view to progressively creating the conditions for the realization of the long-term objective of self- reliant and self-sustained development. Unfortunately, with the intensification of the economic crisis in Africa in the early 1980s, the approach of the LPA was in many cases abandoned as the main preoccupation of most African policy makers increasingly became crisis management for economic survival. The focus thus shifted to short-term concerns resulting mainly from external shocks such as the collapse of the regime of stable exchange rates and commodity markets, high interest rates, persistent drought and mounting external debt obligations. Commodity prices were, in real terms, at their lowest level since 1940. Africa's outstanding debt which was about US$ 48 billion in 1980, reached US$ 170 billion in 1984 owing to the fact that many countries were forced to resort continuously to external borrowing at very high rates of interest because of rapidly declining export earnings. At the end of 1988, total externa l debt amounted to US$ 230 billion.

It is in this context that many African countries found themselves trapped in short-term stabilization and adjustment programmes that tended to involve a sharp delinking from and dichotomization of the short-term objectives of re-establishing financial balances and the long-term objectives of social and economic transformation. The same context dictated the recent trends in the implementation of Africa's Priority Programme for Economic Recovery (APPER), 1986-1990, and the United Nations Pro- gramme of Action for African Economic Recovery and Development (UN-PAAERD,) 1986-1990. Although APPER and UN-PAAERD aimed at laying the foundation for self-sustained development, many African countries have remained under pressure to cope with only the symptoms of the crisis, such as budgetary and external disequilibria, at the expense of leaving the fundamental structural causes of the crisis unaddressed. The present Chapter aims at reiterating and resituating Africa's development objectives within the contemporary imperatives of recovery with transformation.

Human-centered Development: Alleviating Poverty and Raising the Welfare of the People

The ultimate goal of development in Africa is to ensure the overall well-being of the people through a sustained improvement in their living standards. It is this quintessential human aspect of development that underlies all other objectives that Africa will have to pursue, be they economic, social, cultural, or political. Regrettably, the realization of the objective of raising the welfare of the people has proved elusive. Instead, there has been increased immiseration and suffering for the majority of the population, with an increase in the numbers of people in absolute poverty and those who are perpetually vulnerable and threatened by the adversities of nature as well as the malaise of socio-economic disruptions. Unless there is an immediate amelioration in the conditions of the vast majority of African population, there is a real danger of a systemic breakdown in the socio-economic fabric and the supporting natural environment.

It should be emphasized that (the urgency of alleviating mass poverty and of increasing the welfare of the African people is rooted not simply in the humanistic or altruistic aspects of development. It is predicated, above all, on the rational proposition that development has to be engineered and sustained by the people themselves through their full and active participation. Development should not be undertaken on behalf of a people; rather it should be the organic outcome of a society's value system, its perceptions, its concerns and its endeavor!)' As such, to achieve and sustain development, it is necessary to ensure the education and training, health, well-being and vitality of the people so that they can participate fully and effectively in the development process.

This is why the LPA identified the attainment of food self-sufficiency as the very first goal towards which Africa should strive. It is in the nature of things that Africa's viability resides, above all other considerations, in its being able to feed its own people from its internal resources. The attainment of food self-sufficiency as an objective also calls for a change in the food consumption patterns in the region and the undertaking of efforts to maintain population growth at sustainable levels. Given the natural ecological endowment of the African region, there are certain food types (e.g., wheat, barley, and oats) which cannot be produced widely and efficiently. But, the region can produce many tropical staple foods quite efficiently and extensively. It is, therefore, important to ensure a realignment of the consumption patterns with the production capability. If the consumption habits of the African people remain principally based on food commodities that cannot be produced within the region, then Africa's food self-sufficiency objective will forever remain unfeasible. In the circumstances, Africa will find itself in the always humiliating situation of food- dependence.

Needless to emphasize that overcoming hunger and malnutrition in Africa is but one of the many components of the objective of establishing a human-centered development. This concept encompasses many other essential needs and aspects such as individual freedom and political liberty. All these must be fully incorporated in Africa's objective of improving the human condition in the region. The present levels of poverty and deprivation in Africa dictate that, in pursuit of the long-term objectives, action must be started now on at least a minimally defined set of needs that have to be satisfied in the shortest time possible, in term of production of and accessibility to certain basic goods and services such as food, potable water, shelter, primary healthcare and sanitation, education and cheap transport.

To ensure accessibility to the goods and services mentioned above, there is need to provide income-generating opportunities to the poor. This involves three important considerations which Africa will have to keep in constant focus in the development process. They are: (a) access of the poor to basic factors of production, especially land; (b) creation of employment opportunities; and (c) improving the pattern of distribution of national wealth. It must, however, be emphasized that a major constraint to the accessibility of the poor to basic factors of production, especially land, is the degradation of the physical environment, including soil erosion, drought, deforestation, and desertification. There is thus a symbiotic relationship between poverty and the natural environment. Poor soils, lack of rain and desertification reduce the productivity of the rural population and intensify poverty. Simultaneously, in- creased poverty induces the poor to degrade further the physical environment as they struggle to eke out a precarious living. It is thus necessary to establish clear objectives directed towards the management of the environment and ensure the survival and well-being of present and future generations.

Establishing a Self-Sustaining Process of Economic Growth and Development

The ultimate objective of alleviating mass poverty and raising the living standards of the African people will only be attainable if pursued in tandem with the objective of establishing self-sustained development. This encompasses three inter- locking sub-goals; namely, (i) maintenance of sustained economic growth; (ii) transformation of the African economic and social structures; and (iii) maintenance of a sustaining resource base.

However, it must be emphasized that in the context of the long run, sustained economic growth, though necessary, will neither be sufficient nor, indeed, possible without a fundamental transformation aimed at removing the debilitating distortions in the present economic and social structures. In this context, it is pertinent to emphasize that socio-economic transformation has hitherto tended to be equated with a process of economic and social modernization that tries merely to replicate the patterns of production, consumption and institutions that prevail in the developed countries. This confusion has marred the proper conceptualization, design and implementation of a transformation process whose content and parameters are in resonance with African values and realities. This somber realization points to the necessity for a new African transformation ethic that incorporates, rather than alienates, the present and future African realities - economic, political, social, cultural and environmental.

One aspect of social and economic transformation that has to be targeted in the long-run is changing not only the food consumption patterns but also the overall African consumption patterns. The present consumption patterns, especially those of the urban areas, are distorted as they are often a derivative of the value systems of the developed countries. This outward orientation of consumption has inevitably resulted in a dependence on the products of the developed countries, while under- mining the development of internally-produceable goods. It should be further stressed that the transformation of Africa's consumption patterns is not only important for the elimination of debilitating external dependence on luxury consumer imports, but is also critical in determining the goods and services that the region should aim at producing. In retrospect, it is now evident that the import-substitution approach that was adopted on the basis of the existing inappropriate urban consumption patterns was doomed to fail in bringing about the desired transformation effects.

The transformation of Africa's economic and social structures is even more critical at the level of production. This will have to involve structural changes in what is produced and how it is produced, especially in the choice of technologies that may have to be acquired from other regions to meet the objectives of structural change and transformation and in the development of the necessary and appropriate human skills to facilitate the adaptation and internalization of such technologies. In terms of what is produced, the lessons which Africa must draw from the current economic and social crisis as well as the megatrends in the world economy should form a sound basis for making the right choices. One of these lessons is that the crisis has firmly established the validity of Africa's stated objective of attaining food self-sufficiency. It has also highlighted the need to focus on the production of all critical needs and services.

Another lesson is that Africa has to break the apron-strings of structural and relational dependence on producing a limited number of increasingly cheap primary commodities for export. In the face of the emerging trends in the patterns of world production and trade, this objective assumes particular importance. In addition to the emerging shifts in world economic power centers, there are clear trends of major long-term changes in the nature and importance of the raw materials that will be needed in what is increasingly becoming a knowledge-intensive rather than a material- intensive generation of production. This calls for a re-examination of the export items which Africa should produce in the mediumand long-run. It is, of course, also apparent and increasingly clear that African countries will not make a development break-through by exporting raw commodities like coffee, cocoa, copper, etc.

However, the whole tenet of re-examining the export sector does not mean that African countries should not export those products in which they have relative comparative advantage. What it underscores is the fact that the transformation from trade dependence to trade viability needs to be kept in proper perspective. One implication of this is that there is need to intensify the focus on intra-African trade which, in itself, should influence the nature of exportable products among the African countries. In general terms, however, Africa should be producing mainly for its needs, on the basis of interdependence among its countries. Perhaps the most difficult task for Africa in its efforts to transform economic and social structures for self-sustained development is that of transforming the production processes. This task has a number of dimensions, the most important of which include increasing the productivity and efficiency of resources , decreasing the dependence on external resources and ensuring a broad- based participation of its people in the process of deciding on their needs and producing them.

There is no gainsaying the fact that, in the long-term, the very heart of successful and genuine economic and social self-sustainment and transformation in Africa will be the endogenization of development. Hence, the region as a whole has to aim explicitly at achieving an increasing degree of technological internalization and financial autonomy as well as viability. The goal of financial autonomy has a number of facets which must be properly seen in the context of the long-term objective of self-sustainment. These relate to the elimination of a number of relationships of dependence : foreign exchange and aid dependence; reliance on foreign direct investment; and, most urgent of all, the debt trap that cumulates the effects of all the different types of financial dependence. Achieving technological internalization is also of critical importance to the objective of self-sustaining development. It has not always been easy or possible for many African countries to effectively internalize technology. Consequently, greater efforts need to be made by African countries and international agencies in respect of feasible and adaptable technology.

Integrating the African Economies: National and Regional Collective Self-Reliance

The LPA puts particular emphasis on the objective of achieving collective self- reliance in Africa. This is fully embodied in FAL which called for the establishment of an African Economic Community by the year 2000. However, it is important to stress that the motivation for Africa to pursue a deliberate objective of collective self-- reliance is deeply grounded in the imperatives of the region's historical experience, its unique cultural heritage as well as current national and global economic realities.

The political balkanization of the continent into arbitrary nation-states elicits from Africa the understandable impulse to restructure the fragmented region into a more coherent and stronger economic and political entity. The African sense of one- ness and solidarity also sparks off natural sentiments for increased socio-economic co-operation. At the economic level, the numerous obstacles to genuine development that individual African countries confront as a result of their limited and fragmented economic space have provided an objective rationale and galvanized the African resolve to pursue and achieve the goal of collective self-reliance. Overall, Africa sees self-reliance as both the goal and the means through which the region will eventually find its true identity, full dignity and historic strength. It is also the goal and the means by which the region will find the capacity to master its resources, its development and its future.

The integration of the African economies and the attainment of full regional collective self-reliance involves three mutually interdependent dimensions; namely,(a) the integration of the physical , institutional and social infrastructures; (b) the integration of the production structures; and (c) the integration of the African markets.

Experience has shown that no breakthrough in regional integration can be achieved if the infrastructure to sustain the regional production structures and markets are not adequately integrated .

Integrated physical and institutional infrastructures thus provide the facilitating environment for regional co-operation . Hence, Africa has to aim at establishing an integrated infrastructural base and this could be done within the existing subregional context. Of particular importance in this regard are the transport, energy, and the institutional infrastructure for research, especially in agriculture.

It is necessary to open up isolated areas and establish adequate transport links so as to create physically integrated subregional economic spaces. Similarly, the integrated exploitation of the region's uneven energy resources, such as hydro-power, would enable energy-deficit regions to obtain the energy that is critically necessary for trans- formation. Subregional and regional research in areas such as agriculture, drought and desertification, tropical diseases, pest control, herbal medicine, etc. would, inter alia, minimize the duplication of efforts at national levels and facilitate the operationalization of research findings on a region-wide basis. The veritable gains of Africa's collective self-reliance will, undoubtedly, derive from the integration of the production structures.

Firstly, it is at this level that the benefits of the economies of scale will be reaped. Secondly, given the natural complementarities of endowments in the region, the integration of the productive structures would generate new forward and back- ward linkages in the process of regional development. Thirdly, integrating the pro- duction structures would alleviate the persistent constraint of financial resources, as it would enable countries to pool resources and establish multi-country programmes in areas like iron and steel and the development of lake and river basins.

The production dimensions of regional collective self-reliance are so important that they require specific focus in terms of what priorities or special production structures that should be aimed at. In line with the objective of establishing a human- centered development, the first priority area for collective self-reliance is that of regional food security. The second priority area relates to the production of intermediate and capital goods, especially iron and steel, machine tools, fertilizers, chemicals and pharmaceuticals, building materials, as well as agricultural, transport and construction equipment . The third priority area is intra-African trade. The restructuring of national production structures into regionally complementary ones will require the facilitation of intra-African trade to act as a vehicle for collective self-reliance. The development of a regional market for the region's products is pivotal to the attainment of product specialization and transformation, self-sustainment, reduction of trade dependence and the satisfaction of the needs of the African people.

Conclusion

To achieve these objectives will call for wide-ranging changes in the democratization of society within the social and economic framework as well as in development strategies and policies. The political systems will need to evolve to allow for full democracy and participation by all sections of the society. Only in this way will it be possible to persuade people to accept sacrifices and give their best energies to the task of transformation. Also, national programmes of adjustment have to take these objectives as the basis for their design, content and monitoring if they are to lead to recovery and transformation.

Decisions will also need to be taken on the appropriate institutional framework for the economy especially as regards the role of the private and the public sectors, the different forms of social ownership of productive enterprises such as cooperatives, state, community, and local authorities. Another area of crucial importance is the regulating mechanisms namely, markets and prices, planning as well as qualitative and quantitative and direct controls. All these issues of strategies, policies and institutional mechanisms, are addressed in chapters 4 to 6.

CHAPTER III

Evaluation of Stabilization and Structural Adjustment Programmes in Africa

Introduction

By the early 1970s, African countries began to experience a serious crisis which became aggravated throughout the 1980s. Although, as would have been clear from Chapter 1, this crisis arose basically from the structural deficiencies of the African economies, it was nevertheless perceived in terms of internal and external financial imbalances: deteriorating terms of trade, increasing balance of payments deficits, rising inflation, increasing budget deficits, and depletion of external reserves. Consequently, and at the insistence of and with the help of the international financial and development institutions, African governments' response was focused primarily on bringing about internal and external financial balances. Thus, as far back as the 1970s, an increasing number of African countries began to put in place stabilization programmes, and, from 1980, Structural Adjustment Programmes (SAPs). In particular, between 1980 and 1988, thirty-three African countries had concluded Standby Arrangement Facility and twelve had Extended Fund Facility from the IMF, and fifteen had Structural Adjustment Loans from the World Bank.

In spite of all these efforts, the crisis remained unabated. Many African economies moved from stagnation to declining growth; food deficits reached alarming proportions; unemployment mounted; underutilization of industrial capacity became widespread; and environmental degradation threatened the very survival of the African people.

The Policy Content of On-going Stabilization and Adjustment Programmes

Having analyzed the external imbalances of the African countries as originating from excess aggregate domestic demand caused by excessive credit expansion, the centerpiece of stabilization and adjustment programmes has been demand management through credit squeeze. It is believed that behind the disequilibrium in the balance of payments analysis lie two identities. The first is a national income accounting identity which indicates that the difference between total domestic demand and national income is always equal to the current account deficit of the balance of payments. The second identity deals with the flow of funds and specifies that the difference between aggregate domestic demand and income should correspond to the difference between credit expansion and money demand. This identity is used to justify the idea that the only way to spend more than one earns is to get credit. This leads to the conclusion that in order to improve the balance of payments, domestic demand should be reduced through monetary credit squeeze. The IMF which has played a principal role in the design and financing of stabilization and adjustment programmes in Africa has maintained, as its main focus, the achievement of internal and external financial balances with the following as its broad objectives:

- reduction of deficits in the current accounts of balance of payments; and,
- achieving a balance between government expenditure and revenue-implying reduction of deficit financing.

From the beginning of the 1980s, the Fund has supported stabilization and structural adjustment programmes in Africa through upper credit tranche stand-by arrangements, and extended arrangements, which were initially conceived as balance of payments support credits made available to countries for short periods of between one to two years. In the mid-1980s it also strove to incorporate growth among the objectives to be achieved in the adjustment programmes it was supporting. This, among other considerations, led to the review of the life span of the Fund's upper credit tranches from two to three years. In 1986 the Fund established the Structural Adjustment Facility (SAF) and in 1988 the Enhanced Structural Adjustment Facility (ESAF) to cater for low-income countries' adjustment needs.

The principal objectives of the World Bank's structural adjustment lending (SAL) which was initiated in 1980 are: support for the introduction and implementation in the recipient countries of policy packages which are deemed sound for the adjustment process, and institutionalizing "flexible economic management". The principal policy objectives of the Bank-assisted structural adjustment programme include the following:

- reduction in the size of the public sector and improvements in its management;
- elimination of price distortions in various sectors of the economy;
- increasing trade liberalization; and,
- promotion of domestic savings in the public and private sectors.
- The Bank has also, through the sector-based loan programme (SECAL), supported structural adjustment in specific sectors. SECAL shares with SAL the objective of the introduction and implementation of policy reforms in such key sectors as agriculture, manufacturing, energy, and human resource development.

The main policy instruments that the Fund and the Bank have used in their stabilization and adjustment programmes have included the following:

- exchange rate adjustment, mainly through devaluation;
- interest rate policy designed to promote domestic savings and appropriate allocation of resources;
- control of money supply and credit;
- fiscal policy aimed at reducing government expenditure and deficit financing;
- trade and payments liberalization; and,
- deregulation of prices of goods, services, and factor inputs .

Assessment of the Principles and Policies of Orthodox Adjustment Programmes

Underlying the current approaches to adjustment programmes is the well- known argument, based on classical economic theory, that output, employment, and prices (including wages, interest rates and the exchange rates) are best determined by the free play of market forces, and that prices are the most effective instruments for the efficient allocation of resources. The argument is, of course, based on the assumption that economic structures are time invariant and sufficiently flexible so that demand and supply changes respond promptly to market signals. Another important aspect of the theoretical basis of current adjustment derives from a strong belief in the efficacy of monetary instruments, in particular the belief that the volume of output and the price level can be regulated by controlling the supply of money and that socio-political forces and institutions play a negligible role.

While the African experience does not completely negate these principles, it illustrates, perhaps in a most profound manner, the difficulties that would be encountered if the underlying assumptions are far from reality, and if economic aggregates are not very responsive to market forces. In the African situation, the simple truth is that many countries have moved towards freer markets without being in a position to take full advantage of available market opportunities because of the low capacity to adjust their fragile production structures. The consequences of these structural rigidities are evident in many areas, but most notably in the limited capacities of African farmers to respond to price incentives without assured supplies of relevant production inputs; in the failure of domestic production to respond to new opportunities in export and domestic markets, following a currency devaluation, because of a myriad of technical and supply difficulties; and, in the slow response of savings to high interest rates. These rigidities imply that the main burden of adjustment has been borne by drastic reductions in domestic expenditures with serious economic and social consequences that have tended in many cases to retard rather than promote the process of structural transformation. On the basis of the orthodox theoretical framework briefly outlined above, a number of key policy instruments have been designed for stabilization and adjustment programmes by both the IMF and the World Bank. The salient aspects of these instruments and their impact on the African economies are discussed below:

Credit Policy: The credit policy used in orthodox structural adjustment programmes, more often than not, leads to output contraction and the acceleration of the inflationary pressure and, while it might succeed in improving the current account, it leads to a reduction of investment . Worse still, a sustained policy of tight credit would lead to a reduction in the existing capital stock due to the inability to replace it. In addition, indiscriminate credit policy has adverse effects on the productive sector.

Interest Rates: Stabilization and adjustment programmes often recommend an adjustment of interest rates in order to increase savings and reflect the opportunity cost of capital. While savings may respond positively to the real deposit rate of interest, the imperfections of the African money and capital markets are such that high lending interest rates encourage speculative rather than productive activities, thus deepening the predominantly exchange nature of the African economy. Moreover, high interest rates also tend to fuel inflation further, and may be of little relevance to the rural sector due to the weak and narrow financial infrastructure.

Exchange Rate Policy: One of the reasons for devaluation is its presumed effect of changing relative prices and switching demand from foreign to domestic goods. However, the standard conditions of domestic supply and demand, as well as foreign demand, which must hold to make de- valuation successful, re often not satisfied, because of the entrenched technological structures that do not easily permit the substitution of local inputs for imported ones, while it does not also, significantly, affect foreign demand elasticities. In the case of countries where the main exports are composed of primary commodities that are subject to quotas and at prices determined from the outside and/or whose imports are essential (petrol, capital goods, spare parts, medicine etc.) devaluation can only have negligible effect on the improvement of the balance of payments. Even the assumption that devaluation is capable of changing the relationship between wages and prices disregards the issue of equity in in- come distribution which is affected by complex economic, political and social factors. Furthermore, devaluation has a direct impact on inflation through increase in the domestic costs of imported inputs and/or reduces the quantities of inputs which are imported at higher prices, thus, leading to underutilization of industrial capacity. Therefore, whatever the advantages derived by the export sector through enhanced profitability in domestic currency terms are negated by the above consequences because of the excessive external dependence of the African economies.

Trade Liberalization: The justification of trade liberalization derives essentially from the classical theory of comparative advantage which is not compatible with situations in which import elasticities far exceed export elasticities. Thus, in the present African situation, excessive trade liberalization is not a feasible policy in view of the protectionist practices of industrialized countries against exports of African countries, and also because of the adverse effects of foreign competition on infant industries in Africa.

Privatization Policy: The poor performance of public enterprises in Africa has been used in orthodox stabilization and adjustment programmes as a justification for wholesale, indiscriminate, and doctrinaire privatization. However, the presumptive institutional superiority of private over public enterprises has no theoretical foundation. There is also the incorrect assumption in the argument for privatization that the indigenous private sector is strong enough to take over state enterprises. In African countries , where this generally is not true, privatization could lead to the take-over of these public enterprises by transnational corporations, thereby deepening further their external dependence . What is worse is the substitution of the profitability criterion for the social welfare criterion in vital areas such as, water supply in a continent where the majority of the population have no access to potable water.

Price Mechanism: The excessive reliance on markets and prices as allocative mechanisms in stabilization and adjustment programmes is based on the assumption that markets are competitive and that resources are perfectly mobile. This leads to the recommendation for liberalization, deregulation, and the minimization of the role of the state in resource allocation. However, the existence of widespread market imperfections and structural rigidities make such assumptions invalid. The excessive reliance on price mechanisms does not take into account the need for selective government interventions which may be indispensable in coun-tries experiencing structurally induced shortages and skewed income distribution.

Across-the-board Reductions in Budget Deficits: Orthodox structural adjustment programmes often advocate overall budgetary reductions by targeted annual percentage as a means of redressing fiscal imbalances. Often, the deflationary impact of this policy and the consequent reduction of public spending on social services such as education, health, sanitation, and water supply adversely affect the well-being of the majority of the population in adjusting countries.

Many African countries have had to adopt IMF and World Bank-supported stabilization and structural adjustment programmes to obtain emergency balance of payments assistance and badly needed external finance. However, as the analysis in the following section shows, these programmes may not succeed in addressing the real issues and, in many cases, have even failed to address and deal with the real causes behind the African crisis. Further, the programmes generally fail to capture the political, social, cultural and economic realities of African countries. In the words of the Khartoum Declaration, these programmes are "incomplete because they are often implemented as if fiscal, trade and price balances are ends in themselves, and are virtually complete sets of means to production increases. Human condition imbalances, as related to employment , incomes, nutrition, health and education, do not receive equal priority in attention to macro-economic imbalances. They are too mechanistic being inadequately grounded in, or sensitive to specific national eco- nomic, human and cultural realities ... (and) they are in too short a time perspective. Africa cannot wait for the attainment of external equilibrium and fiscal balance before seeking to improve the human condition, nor can long-term human investment to strengthen the institutional, scientific, technical and productive capacity operating in environmental balance be postponed".

Empirical Evidence of the Impact of SAPs on Africa's Economic Performance

The results of structural adjustment programmes have to be carefully evaluated in reaching a judgement on how successful they have been. In this connection, a number of issues have to be addressed:

On Economic Aspects

- The impact of SAPs on the output of non-tradeable, in particular food for domestic consumption and the increase in the output of tradeable compared to that of non-tradeable;
- the impact of the liberalization policy on domestic production and consumption;
- the impact of SAPs on the level of domestic savings and investment as well as the balance between the two;
- the impact of SAPs on the output of import substitutes; and,
- the effect of SAPs on the volume of exports, and whether an increase in the volume of exports, if any, has resulted in a corresponding increase in export earnings.

On Financial Aspects

- the impact of SAPs on the level of inflation;
- the complementarity of exchange rate policy and trade policy;
- the impact of the adjustment programmes on autonomous inflow of foreign investment;
- the level of non-autonomous resource inflows (inflows that are tied to the adoption of SAPs) injected into the economy to support the adjustment programmes; and,
- what evidence there is to suggest that when non-autonomic re- source flows cease that the adjustment process can be sustained by autonomous flows.

On the Social Impact

- the social consequences of the adjustment programmes, and for how long these could be tolerated without serious political and social disruptions;

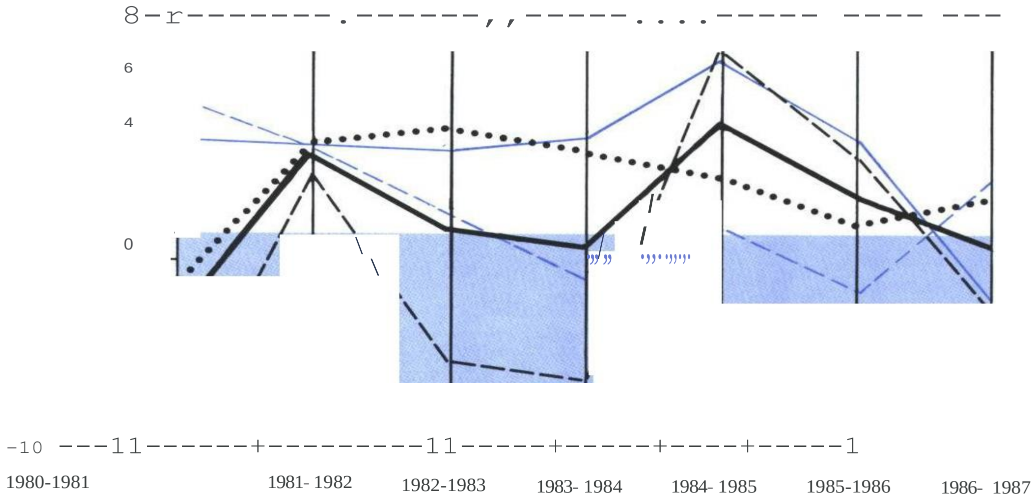
- the impact of SAPs on human development (education, health, nutrition, and employment) which is basic to structural transfor-mation; and
- the effect of SAPs on the aggravation of income inequality and the worsening of the s standard of living of the most vulnerable groups in society (women, children, and the elderly).

In the second phase of this study on structural adjustment programmes which will be country-by-country based, all these issues will be fully addressed. The re- forming countries that would be in the best possible position to improve their eco- nomic and financial conditions as well as the socio-economic conditions of their people would be those countries in which, through a combination of exchange rate adjustment, trade policy and other measures, the reform process can lead to a substantial expansion in the production of exports and import substitutes, as well as a sustained increase in domestic food production. It is such countries that would stand a good chance of going through the reform process without a substantial increase in domestic inflation and serious social consequences. It is also in such countries that the reform process stands a good chance of leading to self-sustained growth. In the paragraphs that follow, the assessment of SAPs is an overview in terms of the overall impact of the programmes on countries.

Figure 3.1, which has been compiled from World Bank data files provides data for the growth of GDP at 1980 constant market prices for the period 1980-1987 for all African countries. Following the World Bank classification, four groups have been considered: (i) countries with strong structural adjustment programmes; (ii) countries with weak structural adjustment programmes; (iii) so-called non-adjusting countries of Sub- Sahara Africa; and (iv) North Africa. Contrary to the findings of the evaluation of the impact of SAP published in a recent World Bank publication that: "The evidence points to better overall economic performance in countries that pursue strong reform programmes than in those that do not …"; gross domestic product growth data show that for the first group of countries - those with strong structural adjustment programmes - recorded an overall negative average annual growth rate(about1.5 per cent) during the period 1980-1987. The performance of this group, however, varied from year to year. At the initiation of adjustment programmes in1980-1981, these countries registered a negative GDP growth rate of about 8 per cent followed by an improvement in 1981-1982. In 1982-984, GDP growth declined significantly with some recovery being achieved in the 1984-1986 period, the latter followed again by significant decline in 1986-1987. The second and third groups of countries - weak adjusting countries and non-adjusting countries achieved an overall average annual GDP growth rate of 1.2 per cent and 3.1 per cent, respectively, during the period 1980-1987. Although the latter two groups of countries also had varying annual GDP growth rates during the 1980-1982 period, they achieved annual positive growth rates throughout the period, except in1983-1984 for weak adjusting countries, and 1986-1987 for the "other countries" when negative rates of growth were recorded. For North Africa, the average annual GDP growth rate for the period 1980-1987wasa positive 1.5 percent with a negative rate of growth being recorded only during 1980-1981. The overall annual average growth rate for Africa as a whole was a relatively low 0.4 per cent, between 1980-1987, largely influenced by the poor performance of countries with strong adjustment programmes.

Figure 3.1: Growth of Gross Domestic Product in Africa (constant 1980 US dollars. market prices; in percent)

Figure 3.1: Growth of Gross Domestic Product in Africa (constant 1980 US dollars. market prices; in percent)

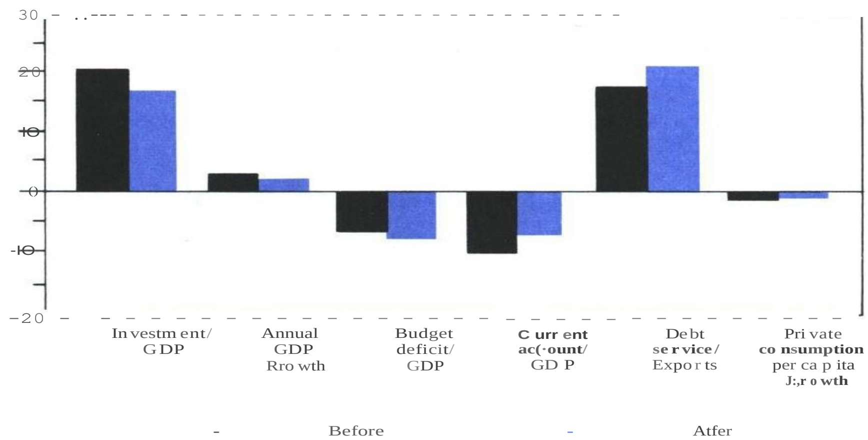


It should be pointed out that in each group of countries there are economies with both negative and positive growth rates during the period. The number of negative growth rates has depended partly on such exogenous factors as: weather, commodity market conditions, inflows of external resources, and the debt situation. Therefore, any attempt to establish a one-to-one relationship between growth trends and adoption or non-adoption of conventional structural adjustment programmes will be unrealistic and not credible, as it will not take into account the above exogenous factors in addition to structural deficiencies.

The above analysis is complemented by another evaluation carried out by the World Bank in 1988 which is illustrated in Figure 3.2 According to this, it is indicated that Sub-Sahara African countries implementing structural adjustment programmes experienced after adoption of SAPs: GDP growth decline from 2.7 per cent to 1.8 per cent; a de- cline in the investment/ GDP ratio from 20.6 per cent to 17.1 per cent; a rise in the bud- get deficit from-6.5 per cent to-7.5 percent of GDP; and, a rise in the debt service/export earnings ratio from 17.5 per cent to 23.4 per cent. The Figure also shows that there has been only a minor improvement in the current account / GDP ratio from -9.4 per cent to -6.5 per cent.

It has been established that SAPs have not succeeded in reducing the adverse consequences of the African economic crisis in relation to the performance of the economies and on the socio-economic conditions of the people. The impact of SAPs on the well-being of the different sections of the African society has been the subject of considerable discussion and debate as attested by the proceedings of the Inter- national Conference on the Human Dimension of Africa's Economic Recovery and Development held in Khartoum in 1988, as well as studies carried out by the IMF and the World Bank, and by ILO and UNICEF. All these studies as well as the Khartoum Declaration have acknowledged the seriousness of the impact of structural adjustment on the human conditions in Africa. There is mounting evidence that stabilization and structural adjustment programmes are rending the fabric of the African society. Worse still, their severest impact is on the vulnerable groups in the society - children, women and the aged - who constitute two thirds of the population.

Figure 3.2 Indicators of the Sustainability of Adjustment for Sub-Saharan Countries imple- menting Bank/FundAdjustment Programmes



Source: World Bank: Washington D.C.. Report on Adjustment Lending. 8th August 1988. (Extract from Page 45).

The major transitional adverse social consequences of structural adjustment programmes are: declining per capita income and real wages; rising unemployment and underemployment; deterioration in the level of social services as a result of cuts on social public expenditures; falling educational and training standards; rising mal- nutrition and health problems; and rising poverty levels and income inequalities.

Many African governments have had to effect substantial cuts in their public social expenditures such as education, health and other social services in order to release resources for debt service and reduce their budget deficits. From the point of view of long-term development t, the reduction in public expenditures on education, both in absolute and relative terms, necessitated by stabilization and structural adjustment programmes, has meant a reversal of the process, initiated in the early 1960s, of heavy investment in human resources development as the foundation for bringing about structural transformation in Africa. Today , per capita expenditure on education in Africa is not only the lowest in the world but is also declining according to a recent UNESCO-UNICEF study. Thus, Africa may begin the next millennium with a greater proportion of its population being illiterate and unskilled than it did at the beginning of the post-independence era in the 1960s.

The Ongoing Rethinking About Adjustment Programmes

Given all the deficiencies pointed out, and the fact that all indications are to the effect that structural adjustment programmes are not achieving their objectives, there have been frustrations on all sides - the Fund and Bank and the countries concerned. It is not surprising, therefore, that there is an agonizing reappraisal and rethinking on the part of many, including the Bretton Woods institutions themselves, the most notable tangible outcome of which is the proposal made by UNICEF generally known as adjustment with a human face.

In general, however, most of the proposals to date on the design of stabilization and structural adjustment programmes have tended to be reformist by essentially accepting the theoretical framework of current programmes and approaches. They have tended not to question the relevance of such programmes and approaches. What is abundantly evident from the appraisal of orthodox stabilization and adjustment programmes so far implemented, based on their performance criteria, is that the performance indicators of these programmes do not correspond to Africa's basic development objectives . Hence, it is essential to evaluate these programmes with respect to their implications for the achievement of Africa's development and trans- formation objectives elaborated in Chapter 2, rather than merely on the basis of orthodox performance criteria such as GDP and export growth, balance of payments and budget balance which, among others, are only at best marginally related to the achievement of Africa's central development objectives such as food self-sufficiency, poverty alleviation, sustainable growth and self-reliance. It is possible to record improvements in the orthodox performance criteria without getting any closer to the realization of the region's critical development objectives. This is why, in spite of the growth of GDP and exports, and in spite of improvements in external payments and budget balances in some African countries, starvation and malnutrition, abject pov-erty, and external dependence have worsened, while the other structural weaknesses and deficiencies of the African economies have intensified.

Conclusion

It should have become abundantly clear by now that, both on theoretical and empirical grounds, the conventional SAPs are inadequate in addressing the real causes of economic, financial and social problems facing African countries which are of a structural nature. There is therefore an urgent need for an alternative to the current stabilization and adjustment programmes in Africa. Such an alternative will have to take into consideration, among other things, the structure of production and consumption and the people who are the main actors in the development process. The requirements of this alternative are articulated in the Chapters that follow in terms of a new framework for the design and formulation of programmes of adjustment with transformation, the policy directions and major instruments of policy required, and the strategies for implementation and monitoring.

CHAPTER IV

An Alternative Framework

Introduction

The preceding Chapters have shown that, given the structure of Africa's socio- economic structures, and the region's development objectives, the orthodox approaches of stabilization and structural adjustment are inappropriate for bringing about economic recovery and socio-economic transformation. This is because the model which underlies orthodox stabilization and structural adjustment programmes emphasizes almost exclusively the use of competitive - domestic and external - market forces. Such a model is essentially not adapted to the African situation which is characterized by weak production structures and imperfect markets. Also, the pro- grammes' concentration on achieving internal and external financial balances ignores basic structural factors that are important for both economic growth and socio- economic transformation.

In elaborating a new framework for structural adjustment that takes full cognizance of the need for transformation, it is important to take into account the structural characteristics elaborated in Chapter 1, the objectives contained in Chapter 2, as well as the realities of the international environment in which the adjustment and transformation process will be pursued. Therefore, a more holistic approach is called for. This approach is in contrast to that of conventional stabilization and adjustment programmes which isolates and addresses only a few aspects of the overall macro- economic set-up. While such partial approach of the conventional programmes could achieve its limited objectives, it could at the same time bring about adverse consequences for other aspects of sustainable development, such as growth, social welfare, equity, employment, and socio-economic transformation. More often than not, even the positive results that might be achieved through the conventional programmes could be outweighed by such negative consequences.

This holistic approach should identify the principal positive and negative fac- tors impinging on development, the human and material resources whose constructive interactions provide the dynamism for development, and the network of institutions that should be fashioned to provide a suitable environment for the forces of change and development. It should also properly assess the possible interactions among the different elements during the processes of adjustment with transformation, so that appropriate strategies and policies can be formulated and implemented.

A Proposed Framework for Adjustment with Transformation

The framework that is being proposed is based on three sets of macro-entities; namely, the operative forces, the available resources, and the needs to be catered for. The operative forces (which could be positive or negative; internal or external; temporary or permanent) are political, economic, scientific, and technological, environ- mental, cultural, and sociological. These together act on the general pattern and rate of development. Examples of these include: the system of government, public enterprises, the private sector, domestic markets, non-governmental organizations (NGOs), Research and Development (Rand 0), forces of nature and climatic conditions, ethnicism and society's value system, external commodity markets and finance and transnational corporations (TNCs). With respect to resources, the main categories that have to be taken into account in the framework include: (a) human resources especially in terms of quality and skill mixes; (b) natural resources especially land, water, and forests; (c) domestic savings; and, (d) external financial resources. In line with the thrust of human-centred adjustment and transformation, the needs that should be elaborated in the context of the proposed framework include mainly the vital goods and services and the ability to acquire them. All such goods and services that fall into the category of luxuries and semi-luxuries should be seen as falling outside the parameters of the framework.

In a formalized formulation, the proposed alternative framework can be ex- pressed in three modules. The first module specifies that the interaction of certain specified forces with the level and pattern of allocation of resources will determine the type, and quantity of the different categories of output. It is in this module that the different sets of relationships (specific to each country) in the process of producing goods and services and generating factor incomes including aspects such as the efficiency and productivity of resources would be defined. The second module stipulates that forces are also at play in characterizing the distribution of output and in deter- mining the level and pattern of allocation of factor income. As in the first module, it is in this module that the different sets of relationships (again specific to each country) dealing with income distribution would have to be specified. The third module specifies that there is a set of operative forces which interact with the level of income and pattern of income distribution to determine the degree of domestic satisfaction of the needs and the external transactions with the rest of the world including exports, imports, debt, aid and resource flows. As in the first two modules, it is in this module that the sets of relationships dealing with the elements of domestic demand and transactions with the rest of the world would have to be specified for each country.

A few points need to be emphasized about some general properties of the framework. First, all the macro-entities are individually and collectively dynamic over time and space. Over time, the operating forces ill change in composition and the interactive importance of the different components will shift. Also, the resources available or needed will change with time in terms of composition and relative importance. Similarly, the needs of society are not static since, with development, the resultant changes in society's total needs will generate a new set of normative or perceived needs. All the forces·, resources and needs in the framework will also change over space in the sense that the nature of their interactions will become different depending on whether one looks at them from the point of view of .one national economy or from the perspective of country and subregional groupings.

Secondly, the entire system, consisting of the three modules, must be seen as dynamically interactive. One example of the interactive nature of the system is that the levels or values of the variables relating to transactions with the rest of the world will affect the levels of some of the resources which, in turn, will affect the level and structure of the factor product generated as well as its distribution. Also, the existence of gaps between the needs that have to be catered for and the actual product mixes might necessitate adjustments in the parameters and values of variables relating to the factor income generation and/or allocation so as to ensure the closing of the gaps.

Finally, what is presented here is only the framework that will enable African countries to identify the major components of the forces at play, the needs of society, the resources required and the principal interactions and relationships among these. It does not constitute a standard model that would generate standard policy prescriptions irrespective of the peculiar circumstances of a given country. On the contrary, the framework is broad and flexible enough to be used along with selected policy directions, for the specification of appropriate models and the subsequent design of programmes for individual African countries, taking into account the specificity of social and economic structures.

Critical Focus of the Framework for Adjustment with Transformation

From the above general presentation of the basic framework, it is evident that the different categories of forces play a major role in the process of adjustment with transformation. They not only influence the level and structure of what is produced, but also determine the distribution of wealth among various institutional sub-groups such as households, government, enterprises and other identifiable socio-economic groups. Similarly, the forces also influence both the nature of the needs and the degree of their satisfaction, especially in terms of consumption patterns and the perception of the social and economic balances that are desired among material, social and cultural needs. Thus, the social dimension of adjustment with transformation is a prominent focus of the alternative framework which is based on employment generation for the majority of the population, equitable income distribution especially to households and vulnerable groups, and the satisfaction of the essential needs of the people.

It must be re-emphasized that the proposed framework is in sharp contrast to the models that underlie the orthodox stabilization and structural adjustment pro- grammes, and thereby underscores the inherent weaknesses of the latter. In conventional programmes, the many important social and economic interactions are often ignored or marginalized. For example, in the income generation process, conventional programmes ignore the important forces of domestic demand as they mainly focus on the production of primary export commodities. Further, the model of conventional stabilization and adjustment programmes does not include the aspects of income distribution thereby marginalizing the role of the institutional set-up especially with respect to the different socio-economic groups. Finally, by focusing mainly on the internal and external balances and changes in relative prices, the orthodox pro-grammes leave the important aspects of the critical needs and services, including productive employment, on the periphery of the process of adjustment. Thus, they might have serious negative impacts on certain socio-economic groups.

From such weaknesses of conventional programmes, derive the sequencing of the ongoing adjustment process. This sequencing, which is illustrated in figure 4.1, shows that the path of orthodox adjustment proceeds from a crisis situation, in which structural weaknesses, bottlenecks and hostile economic international environment tend to compound the problems of economic decline, rising external dependence, collapse of the rural economy, capital flight and brain drain, mass poverty and increased irnrniseration, to a situation of temporary relief from problems of financial disequilibria but without improving the structural weaknesses of the economy.

Taking into account the structural weaknesses that lead to the perpetual emergence of crisis situation in African countries, the path of adjustment with transformation should aim at simultaneously strengthening the processes of the generation, distribution and expenditure of national income. From the income generation process in the first module of the alternative framework, the critical focus of the framework for adjustment with transformation is that of more human-centered development process in which productive forces are given a prominent role, and resources are used so as to bring about the transformation of the African economy from a primarily exchange economy to a production economy. With respect to the process of income distribution (module 2), the main focus of the framework is that of ensuring a greater and more effective involvement of socio-economic institutional groups in the process of adjustment and transformation. Finally, the focus with respect the critical needs(module 3) is primarily on the production and accessibility of essential commodities and ser- vices, the production of essential factor inputs and the maintenance of increased investment levels.

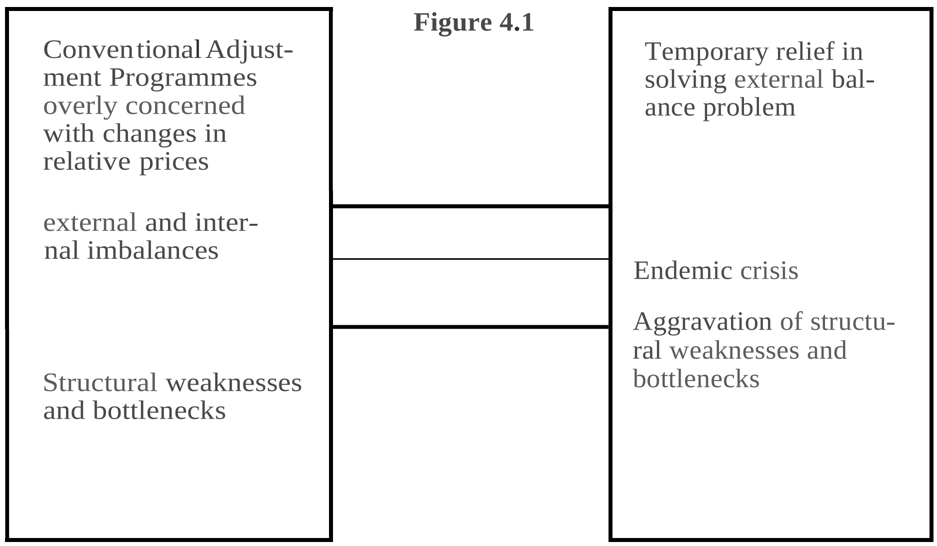


Figure 4.1

The above outlined critical focus in the process of adjustment with transformation, if relentlessly pursued, cumulatively leads to sustained development while providing the necessary capacity to adjust to changing domestic and external circumstances. This more appropriate sequencing of adjustment is illustrated in figure 4.2. The sequencing leads to a simultaneous improvement in the capacity to adjust and a restructuring of the economy.

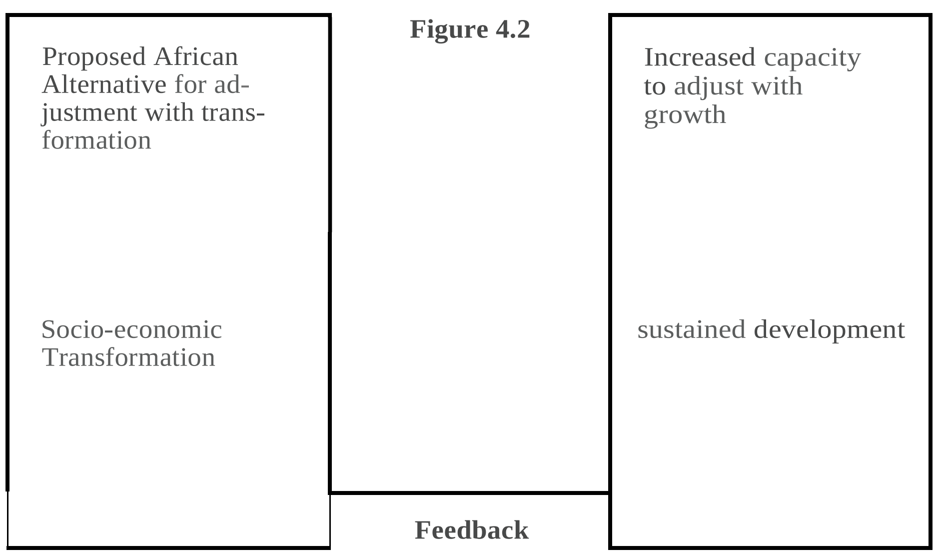


Figure 4.2

As explained in paragraphs 78 and 79, the sequencing outlined above, and which derives from the new framework, involves an important additional aspect of feedbacks that are always inevitable in the application of policies as stimuli for change. The present framework recognizes that its operationalization through policy implementation does have feedbacks on the nature of operational forces and their interactions with resources and on the satisfaction of society's needs. It is in this sense that the framework seeks, additionally, to incorporate the dynamics of adjustment with transformation, thereby enabling a more appropriate conceptualization of the efficacy of policy directions and instruments to be applied.

Application of the Framework for Adjustment with Transformation

Naturally, the operationalization of the proposed framework for adjustment with transformation must address the important questions relating to the desirable norms of adjustment, the structures that the economy should adjust to or transform, the main variables involved, and the types of relationships among them (i.e. the articulation of the modes of interactions of forces, resources and needs). In this way the policy parameters can be appropriately chosen.

The basic norms of adjustment will obviously depend on the specific national characteristics or subregional circumstances. However whatever the national characteristics, the norms have to be consistent with the overall development objectives outlined in Chapter 2; namely , increasing the level of the standard of living of the majority of the population, ensuring sustained and sustainable economic growth and development, and reduction of individual and collective external dependence . The structures to adjust to or transform would also have to include the real and material structures and relations of production, consumption and technology; the socio- economic institutional structures; the domestic financial structures, and international trade and finance structures.

The variables involved in the application of the framework derive from the three modules described in paragraph 77. In this context, it must be stressed that there is need for well-considered selectivity, taking into account the fact that the mix and relative importance of the different variables relating to the forces, resources and needs will undoubtedly vary from country to country. The variables that are to be identified and used in the application of the framework will also depend on the degree of disaggregation that is compatible with data availability and reliability as well as the analytical scope desired in given circumstances. Therefore, what is outlined below are only the variables that are most likely to be prominent in the application of the framework in most of the African countries.

With respect to the generation of factor product (module 1), the variables at play should include sectoral output with distinction between exportable and non- exportable commodities; indices of forces that are relevant to the production process such as weather, technology, institutions, world commodity and financial markets; variables related to resources especially land (arable and cultivated), exploitable natural resources, domestic savings, external resources, labour and intermediate inputs (domestic and imported). These variables are inter-related and are to be operationalized through such policy instruments as exchange rate policy, domestic credit policy, interest rate policy, producer prices, production subsidies, etc.

For the allocation of factor income (module 2), the variables that would have to be considered include those related to income by institutions such as rural and urban households, government, large public and private enterprises, small-scale enterprises, etc.; the indices of forces that generate the pattern of income such as rural- urban terms of trade, land distribution, etc. The policy instruments that would have to be incorporated along with the allocation variables include fiscal policy, selective credit policy, wages and income policy, etc.

As regards the expenditure of income (module 3) the variables are, first of all, related to the nature and level of needs that have to be satisfied, their availability and affordability given the pattern of domestic production and the pattern and level of income. Such variables include food and other essential commodities and social services, basic infrastructures, investment resources, factor input requirements, etc. The discrepancy between the level and structure of the needs on the one hand, and the level and structure of output and income on the other, will determine the variables relating to the degree of self-reliance and the internalization of the process of trans- formation. These variables include imports, trade balance, current account balance, debt and debt servicing burden, food self-sufficiency ratio, etc. The relevant policy parameters include those related to (i) increased affordability of goods and services (e.g. consumer subsidies, price control etc.), and {ii) changes in the pattern of consumption (e.g. import control, mass education etc.)

CHAPTER V

Policy Directions and Instruments

Introduction

Having outlined the macro-framework for the alternative adjustment and trans- formation path in Chapter 4, this Chapter sets out to operationalize this framework by recommending the policy directions, instruments and measures which African countries should adapt to their own peculiar and unique circumstances. As will be- come clear in the Chapter, the African alternative incorporates a number of policy areas which form part of many of the existing structural adjustment programmes, and on which some broad consensus seems to have emerged, however. The most important of these include: (a)improved financial management and efficiency of public enterprises and tighter financial accountability; (b) improved agricultural incentives; (c) export diversification, mainly in processed agricultural products; and (d) improved external debt management. It also incorporates a number of areas on which consensus has yet to emerge. These include, among others, the issue of complementarity in exchange rate and trade policies, the fallacy of composition in respect of competitive stimulation of the same range of traditional export crops in African countries, and the sustainability of non-autonomous resources to support adjustment in all African countries. The proposed framework, given its holistic approach, naturally addresses all these issues in a coherent and integrated manner rather than merely treating them in isolation or as remedial additions to existing adjustment programmes.

In operationalizing the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP), it is essential to point out that all countries - developed or developing - find it necessary to adjust from time to time to changing economic parameters and circumstances. What often constitutes the difference is not in regard to the need to adjust but in the capacity to adjust to changing economic circumstances. This, in tum, depends on the lee-ways and options open to the different countries in terms of the time horizon of adjustment, their structural characteristics and long-term development objectives. It is in the light of these that the modus operandi of the adjustment process is deter- mined. What has become clear from the analysis in the preceding Chapters is indeed not that the symptoms and serious indications of these problems, for example, balance of payments disequilibrium, fiscal imbalance, inflationary pressures and acute short- ages of goods are to be wished away or passed off unaddressed. On the contrary, Africa has to adjust. But, in adjusting, it is imperative that it is the transformation of the structures that fundamentally serve to aggravate the African socio-economic situation that constitutes the focus of attention. As such, adjustment and transformation must be conceived and implemented as inextricably linked and intertwined processes such that progress will be made simultaneously on the two fronts.

Major Policy Directions in AAF-SAP

Given the structural bottlenecks in African economies, adjustment must be seen as part of a continuous process of transformation rather than as a discontinuous exercise on its own. Consequently, the siege-mentality of ad hoc crisis management approach must yield place to the total immersion of adjustment programmes with the long-term needs of transformation since adjustment policies and measures are unlikely to yield any full and enduring benefits outside the context of transformation. It is in this framework that the major policy directions outlined below must be pursued.

It should be evident that the policy directions have to be intimately related to the analysis of the African political economy in Chapter 1 and the development objectives in Chapter 2. This is so because, conceptually and operationally, the policy directions provide the broad guidelines for overcoming the structural bottlenecks of the African economies and for the subsequent attainment of the region's development objectives. Also, the policy directions should serve as general bounds that will characterize the specification of, within the context of the proposed macro-economic frame- work, the models for individual African countries and for the subsequent choice of policy instruments and measures specific to a given country. Within the context of strengthening and diversifying Africa's production capacity and the productivity of investment, which is at the center of the generation of factor product (module 1) the following are the major policy directions:

(a) Enhanced production and efficient resource use: This involves mainly the systematic avoidance of constraining productive capacity for the mere purpose of achieving financial balances. In other words, in as much as the resources involved can be allocated and utilized efficiently and productively, the logic of always having to balance the budget at the expense of growth and production must be resisted. Such productive and efficient use of resources would, in itself, involve a policy change to bring about significant shifts towards the production possibility curve and increasing returns to investment.

(b) Greater and more efficient domestic resource mobilization: It must be recognized that, at present, there are too many financial leakages - fiscal, monetary, external payments, capital flight, etc. - all of which need to be plugged in order to enhance resource mobilization for investment and budgetary expansion. This is all the more important in view of the un- certainties surrounding the quantum of external resource flows to Africa, and the increasingly stiff conditionalities attached to such inflows. Given the existing international economic environment, there is little hope of adequate resource inflows being available to all African countries on a sustainable basis for adjustment and transformation. Even if such re- sources could be attracted, it is almost certain that the terms and conditions on which they would be made available would be such as to offer mere temporary relief to the African countries and serve more to aggravate and deepen their structural problems and deficiencies.

(c) Improving human resources capacity: One important aspect of this policy direction is that reductions in budget deficits must not be accomplished at the expense of expenditures on the social sector, i.e., education, health, and other social infrastructure, including the maintenance of law and order, which are prerequisites of an enabling environment. Recognition of the paucity of human capital as a limiting factor on the enabling environment for transformation in Africa and of the relative neglect of this sector during the 1980s dictate that efforts must be made to ensure that an annual average of at least 30 per cent of total government outlays is devoted to the social sector and that, in any case, the annual rate of growth of social investment is significantly higher than the population growth rate.

(d) Strengthening Scientific and Technological Base: The medium- and long- term perspectives of structural transformation require an adequate scientific and technological base essential for transforming national raw materials in the form of agricultural products, minerals, forestry and aquatic resources into consumable goods and services both for local and export markets. The strategy for achieving these objectives and the main issues involved are: (i) having a Chapter in national socio-economic plans on science and technology policies which reflect the role, development and application of science and technology essential for meeting the socio- economic needs of the people; (ii) enhancement of endogenous capacity to deal with the development and application of science and technology by strengthening the scientific and technological infrastructures, by establishing a technologically-focused educational system, by improving the quality of manpower training, by linking production with indigenous research efforts, and by having appropriate personnel and mechanisms for commercializing the results of research undertaken in universities and research institutes; (iii) finding alternatives to the export of raw materials by the development of new products and processes, and ensuring the competitiveness of African products in view of the advent of new and emerging science and technology which has a direct impact on African products and raw materials and the bio-engineered products that are supplanting Africa's basic products on the world market and affecting adversely their competitive base; and (iv) the development of an endogenous capacity of a harmonized sub-regional and regional policy that will enable the implementation of joint multinational projects and the optimization of available scarce resources.

(e) Vertical and Horizontal Diversification: The first crucial dimension of diversification is that of producing essential goods and services to meet the needs of the majority of the population in all sectors. The second dimension of diversification relates to the need to lessen mono-culture export dependence and its associated instability in terms of earnings. This would necessitate export re-orientation, involving the widening of the existing narrow range of exports and export markets to include an increasing share of processed commodities and manufactured goods, and refocusing on African markets. It should be stressed that the pattern and level of factor income allocation (module 2) is very important in the process of adjustment with transformation as it greatly influences the dynamics and patterns of production , the effective size of domestic markets as well as the alleviation of mass poverty. In this regard the following policy directions are basic:

- Establishing a pragmatic balance between the public and private sectors: In determining such balance, the main criteria should be the availability of local entrepreneurial capability and the optimum social and economic rates of return on investment. It should, however, be noted that there are areas such as the building of the physical, human and institutional infrastructure, environmental protection and conservation as well as the provision of essential services in which the public sector has a role to play, especially given the present level of development in African countries. But where the State has over-extended itself, particularly in non- social service and non-strategic sectors, selective privatization should be considered.
- Creating an enabling environment for sustainable development: This pol- icy direction includes a number of important factors among which are broad participation in decision-making, consensus building, maintenance of equity and justice, elimination of civil strife and instability, facilitation of access to opportunities for all, and creating a favourable investment climate. In line with the policy direction in paragraph 97 (a) above, the enabling environment should incorporate the issue of encouraging en-trepreneurship and the effective contribution of the private sector and grassroot initiatives to the development process through consistent policies and appropriate incentives.
- Shifting of resources: This policy direction should aim at minimizing non- productive expenditures and excessive military spending. In Africa, where needs are greatest, social priorities have increasingly taken a second place to defense spending. The significance of budgetary disparities be- tween public welfare and defense is illustrated by estimates which show that, in the rnid-1980s, developing Africa spent less public resources on education than on the military, in contrast to Latin America where expenditure on education is double that of defense. The military-social imbalance is further reflected in the fact that, in Africa, annual public expenditures on health have, on average, accounted for less than a third of military outlays. It is not difficult to imagine what it would mean to social welfare in Africa, with all its positive multiplier effects, if a saving can be achieved in defense spending and in non-productive expenditures. It is of course understood that for African countries facing unabated ex-ternal aggression and destabilization , this policy direction may be difficult to pursue until the external destabilizing forces are removed.

- Improvements in the pattern of income distribution among different socio- economic categories of households: This constitutes an important element of adjustment with transformation as it has direct impact on the size of domestic markets for domestic products and the alleviation of mass poverty. It should be reiterated that to pursue this policy direction also entails ensuring that, in the generation of output, the poor and the disadvantaged will have increased access to the means of production , especially land.
- The pattern of expenditure of income for the satisfaction of the required needs (module 3) is an essential component in the adjustment with transformation process. Therefore, the following policy directions are basic:
    i. Food self-sufficiency: In this regard, policy emphasis will have to be put on achieving a proper balance between the food subsector and the pro- duction of agricultural export commodities. This will have to necessarily reverse the present trends of adopting policies that tend, especially in terms of price incentives, to create a bias against the food subsector and to favour the production of export commodities.
    ii. Lessening import dependence: In order to ensure a sustained and sus- trainable satisfaction of the critical needs of the population, it is necessary to move away from the present situation whereby most of the essential needs, intermediate inputs and capital goods in African countries are generally satisfied from imports.
    iii. Re-alignment of consumption patterns with production patterns: This will call for a change in consumption habits so that the people will start to consume more of what is domestically produced, especially in the areas of food, clothing, housing and other essential necessities. It is important also that the opportunities for exchange and trade in basic food staples and in other essential goods be widened both at national and sub-regional levels, with a view to enhancing national and sub-regional collective self- reliance.
    iv. Managing debt and debt-servicing: In order to release the scarce and badly needed foreign exchange resources, it is necessary to establish strong debt management systems. This would involve, inter alia, a continuous assessment of payment capacity in the short- and long-term. It would also have to entail the rationalization of debt accumulation by concentrating future external loan resources on productive projects that have quick and high returns with substantial foreign exchange component.

Policy Instruments and Measures for Adjustment with Transformation

The policy directions outlined above will necessitate the use of a number of policy instruments and measures for achieving the goals of adjustment with trans- formation. They also call for the modification or avoidance of certain policy instruments and measures.

The policy instruments and measures that must be modified under AAF-SAP are in Table 5.1. They are inappropriate for the process of adjustment in African countries given the structural rigidities and the desired goals of transformation and sustained development of the African economies already outlined in Chapters 1 and 2 They include: (a) practices that, de facto, lead to excessive dependence on the market mechanism; total price and import liberalization; (b) doctrinaire privatization; (c) inflation-adjusted interest rates; (d) across-the-board credit squeeze; (e) total elimination of subsidies; (f) generalized devaluation; (g) indiscriminate promotion of traditional exports; and, (h) deflationary budgetary measures, especially drastic reductions in public spending. It will be seen from Table 5.1 that these policy instruments and measures will have negative impact on adjustment with transformation. Although they might provide temporary relief in respect of internal and external financial balances, they are more likely to aggravate the crisis in the long run, particularly if non-autonomous resource flows to the countries concerned were to dry up. These policy instruments, together, would lead to the inappropriate sequencing illustrated by figure 4.1 in Chapter 4.

Table 5.1: Summary of Policy Instruments and Measures to be modified under AAF-SAP

Description of Policy Instrument and Measures	Effects for adjustment with transformation
1. Drastic budgetary reductions, especially with respect to expenditures and subsidies on social services and essential goods.	Undermines the human conditions, the enabling environment and the future potential for development; necessitates massive retrenchment in the public sector.
2. Indiscriminate promotion of traditional exports through price incentives offered only to the "tradeables".	Undermines food production and self-sufficiency, and can lead to undesirable environmental degrada tion; could result in over-supply and fall in prices (fallacy of composition).
3. Across-the-board credit squeeze.	Leads to overall contraction of the economy; declines in capacity utilisation and closure of enterprises; and an accentuated shortage of critical goods and services.
4. Generalised devaluation through open foreign exchange markets, currency auctions and large and frequent currency depreciations.	Leads to socially unsupportable increases in prices of critical goods and services; raises the domestic cost of imported inputs and undermines capacity utilisation; triggers gene- ral inflation; diverts scarce foreign exchange to speculative activities and exacerbates capital flight; worsens income distribution patterns; undermines growth and can result in structural entrenchment of traditional exports through price incentives for such commodities or "tradeables".
5. Unsustainably high real interest rates(inflation-adjustednominal rates of interest).	Shifts the economy towards speculative and trading activities by becoming a disincentive to productive investment; fuels inflation.

Description of Policy Instrument and Measures		Effects for adjustment with transformation
6.	Total import liberalisation.	Leads to greater and more entrenched external dependence; intensifies foreign exchange constraints; jeopardises national priorities such as food self-sufficiency; erodes capacity of infant industries and thereby slows industrialisation.
7.	Excessive dependence on market forces for getting the "prices right" in structurally distorted and imperfect market situations.	Worsens inflation through sharp rises in production costs and mark-ups; causes deviations from desirable production and consumption patterns and priorities, and may derail entire process of transformation.
8.	Doctrinaire Privatisation.	Undermines growth and transformation; jeopardises social welfare and the human conditions.

In line with the proposed framework, the desirable policy instruments and measures have been categorized into three groups; each group comprising of a set of policy instruments and measures consistent with the range of policy directions outlined in paragraphs 97 to 99. These three groups are: (a) strengthening and di- versifying production capacity; (b) improving the level of income and the pattern of its allocation; and (c) expenditure of income for satisfaction of critical needs. In addition, there are institutional support measures required to ensure the efficient operationalization of AAF-SAP.

Table 5.2: Summary of Proposed Policy Instruments and Measures under AAF-SAP

Description of Policy Instrument and Measures	Effects for adjustment with transformation
A. Strengthening and Diversifying Production Capacity	
A.1 Land reforms for better access and entitlement to land for productive use; enhancement of the role of women as agents of change and the modernization of the food production sector.	increased production and opportunities for gainful employment; poverty alleviation and more equitable income distribution.

Description of Policy Instrument and Measures		Effects for adjustment with transformation
A.2	Devoting at least 20-25 per cent of the total of public investment to agriculture.	improved rural infrastructure and agricultural institutions; increased agricultural productivity; expansion of rural employment.
A.3	Allocation of an increasing share of foreign exchange for imports of vital inputs for agriculture and manufacturing sectors; expansion of agricultural and industrial employment; increased domestic output of essential commodities and avoidance of import strangulation; and increased interlinkages between agriculture and industry;	satisfaction of critical needs.
A.4	Sectoral allocation of credit using credit guidelines **that** would favour the food subsector and the manufacture of essential goods.	.increased production of food and essential manufactured goods; increased gainful employment.
A.5	Adoption of investment codes and procedures tailored to the promotion and development of small-scale industries.	better enabling environment with greater involvement of local entrepreneurs.
A.6	Use of selective nominal interest rates in such a way that interest rates on loans for speculative activities would be greater than the rates on loans for productive activities, and resulting weighted real interest rates for savings would be positive.	increased mobilisation of domestic savings; reduction of speculative activities; shifting resources to productive activities.
A.7	Creation and strengthening of rural financial institutions.	increased mobilisation of rural savings and improved financial intermediation.
A.8	Rehabilitation and rationalisation of installed productive and infrastructural capacities; and setting up of an effective national maintenance system.	fuller capacity utilisation; economic growth; savings in foreign exchange.

Description of Policy Instrument and Measures	Effects for adjustment with transformation
A.9 Utilizing the existence of de <u>facto</u> multiple exchange rates systems in a rationalized manner and/or creating and streamlining such a system for purposes of resource transfers, resource mobilisation and reversal of capital flight and ensuring availability of essential imports.	encouragement of capital inflows, especially by nationals working abroad, and discouragement of capital flight; improvement in balance of payments; satisfaction of critical needs.
A.10 Creation of a special fund for loans at subsidized interest rates to certain groups of economic operators.	encouragement of greater productive activity.

B. Improving the Level of Income and the Pattern of its Distribution

B.1 Enlarging the tax base, improving efficiency and probity of the tax collection machinery.	increased government revenue.
B.2 Reduction of government expenditure on defence as much as possible, and on non-productive public sector activities.	release of resources for investment; improvement in resource allocation; improvement in balance of payments.
B.3 Removal of subventions to parastatals other than those in the social sector and nationally strategic basic industries.	release of resources for productive investments; better fiscal balance.
B.4 Use of limited, realistic and decreasing deficit financing for productive and infrastructural investments that have little import content.	sustaining growth through support to relevant production units.
B.5 Guaranteed minimum price for food crops managed through strategic food reserves.	food production on a sustained basis; assured income to farmers; increased access to food for majority of the population; control of inflation.

Description of Policy Instrument and Measures	Effects for adjustment with transformation

C. Pattern of Expenditure for the Satisfaction of Needs

C.1 Expenditure-switching (without necessarily increasing total government spending) to raise government outlays on the social sectors, particularly those aspects of education, health and the integration of women in the development process that are likely to increase productivity, such that an average of 30 per cent of total annual government outlays is devoted to the social sectors; and, thereafter to maintain a growth rate in public outlays on these sectors at above the population growth rate.	satisfaction of critical social needs; investment in human capital; raising living standards of majority of the population.
C.2 Selective policies through subsidies, pricing policies etc., to increase the supply of essential commodities required for maintaining a socially-stable atmosphere for development.	increased affordability of essential goods and services as well as critical intermediate inputs; increased production of industrial raw materials; control of inflation.
C.3 Selective use of trade policy, including banning of certain specified luxuries; high tax rates on conspicuous consumption and competitive factor inputs that have domestic substitutes; and mass education towards consumption of domestic goods.	changes in consumption patterns; enlargement of markets for domestic goods; changes in production patterns; internalisation of production of factor inputs; improvements in balance of payments.
C.4 Strengthening intra-African monetary and financial cooperation as well as payments and clearing arrangements.	increased self-reliance and capacities to finance adjustment with transformation.
C.5 Limitation of debt service ratios to levels consistent with sustaining and accelerating growth and development.	freeing of resources for productive activities to sustain adjustment with transformation; improvement of balance of payments position.
C.6 Specific export incentives for processed exports and carefully-selected primary commodities.	increased diversification; reduced vulnerability to fluctuations in commodity prices; export growth and increased export earnings.

Description of Policy Instrument and Measures	Effects for adjustment with transformation
C.7 Differential export subsidies; removal of trade barriers; and encouraging barter trade to boost intra-African trade.	reduced external dependence and better product mixes and integration in Africa.
C.8 Bilateral and multilateral agreements on primary commodities.	improved and more stable balance of pa yments.

D. Institutional Support for Adjustment with Transformation

D.l Creation of adequately funded "supervised food production credit systems" in rural areas with easy access by farmers in terms of limited collaterals etc.	sustained increase in food production and adoption of technologies to reduce vulnerability to weather through increased investments in areas like small irrigation schemes.
D.2 Strengthening agricultural research focussed on produc tion; creation of extension services and systems for the diffusion, application and operationalisation of research .	will accelerate process of achieving a green revolution in Africa especially in the five food crops that are basic to food self-sufficiency in the region. (maize, sorghum, millet, rice and tubers) as well as accelerate the building up of a viable industrial base.
D.3 Creation of rural institutions to support cottage industries and small scale industries with emphasis on indigenous technology, domestic finance, rural infrastructure and women participation.	promotion of integrated rural development; enhancement of the attractiveness of rural areas; promotion of rural technological development; employment generation.
D.4 Legislation of a clear framework of ownership and participation of the different socio-economic groups such as rural cooperatives, artisans, traders etc.	will enable popular participation in production, marketing and development in general; and the strengthening of the informal sector and its ultimate integration into the mainstream of development.
0.5 Establishment of community development institutions especially ind i geno us NGOs and self-help programmes.	will enable use of direct community labour on a voluntary basis for the provision of rural infrastructure such as feeder and access roads, health centres and dispensaries, school buildings and small irrigation schemes.

Description of Policy Instrument and Measures	Effects for adjustment with transformation
0.6 Greater mass participation in decision-making and implementation of programmes.	greater confidence of the people in their own societies and government; greater commitment to and sacrifices for development; more efficient of highly motivated human resources.

Source: Africa's Development Thinking Since Independence A Reader

Notwithstanding the diversity of the policy instruments and measures in Table 5.2, there will be need for flexibility in the articulation, design, and choice of national policy packages, taking into account the circumstances in individual African countries and how they evolve over time. Policy packages may also differ from one period to another even in the same country, in respect of the policy instruments and measures employed and how they are combined. However, whatever policy instruments and measures are chosen by a country, it will be necessary to ensure that there are policy instruments and measures selected from each of the four categories outlined above.

In order to keep the policy instruments and measures in Table 5.2 in proper perspective, they should be read and viewed in the context of the sequencing of the process of adjustment with transformation illustrated in figure 4.2 of Chapter 4 whereby the economy, through appropriate changes in policy directions, and through the adoption of appropriate policy packages deriving from the proposed framework, achieves adjustment and transformation simultaneously.

While the policy instruments in Table 5.2 necessarily derive from the structure of the proposed framework, and its corresponding policy directions, it is essential to bear in mind the specific rationale for the choice of the different policy instruments or measures. This is briefly attempted below in terms of the anticipated or associated effect(s) of some of the policy instruments and measures on the goals of adjustment with transformation.

In respect with strengthening and diversifying Africa's productive capacity, emphasis has to be on accelerated rates of capital formation, adequate subsidies for fertilizers and other farm inputs for food production, and greater budgetary and foreign exchange allocations to the food and agricultural sectors as well as to industries producing basic essential goods. To reorientate production activities towards those producing basic essential goods as well as critical capital and industrial inputs, preferences will have to be given to the food sub-sector and to some manufacturing sub- sectors in terms of access to credit and the cost of credit. The banking system may be required to lend larger proportions of its resources to these "preferred " activity areas and to charge lower interest rates on such loans compared to the rates on loans to other activities. The adoption of appropriate investment codes and procedures tailored to the needs of small-scale investors and industries will encourage the creation of a better enabling environment for greater participation of local entrepreneurs in the development process. Land reform is also a very important and necessary instrument to ensure gainful employment to the vast majority of the population. As major agricultural producers, especially of food, women must receive particular attention. Their role can be enhanced through, inter alia, increased access to land, credit, farm inputs and more modem technology.

If greater domestic resource mobilization is to take place and the forces of growth and development internalized in Africa, it follows that there must not be excessive financial liberalization which aim at driving up real interest rates to levels that become counter-productive and inimical to the small modem sector and are, in any case, of little or no relevance to savings decisions in vast segments of the economy, especially the rural areas and the informal sectors. Rather, more domestic resources would have to be mobilized largely through the encouragement of thrift and financial deepening and the use of nominal interest rates which are attractive enough to encourage savings. To promote the mobilization of savings in the rural areas and enhance the intermediating role of financial institutions in the savings-investment process in the economy, rural money and credit structures need to be established and/or strengthened. By adopting multiple exchange rates for resource transfers, it should be possible to encourage greater home remittance by nationals working abroad and at the same time discourage capital flight. By strengthening intra-African monetary and fiscal co-operation as well as payments and clearing arrangements, it will be possible to reduce Africa's external financial dependence and increase the capacity of its countries to finance adjustment with transformation without the constraints of foreign exchange.

In respect of increased efficiency in the allocation and judicious use of re- sources, there will be need for expenditure-switching in the form of curtailment of government expenditures on defense and non-productive activities, removal of subventions to parastatals other than those in the social sector or nationally strategic basic industries, and the limitation of debt service ratios to proportions that would not be detrimental to productive activities so as to ensure economic growth. To promote a more efficient allocation of available loanable funds, higher lending rates must be prescribed for loans for speculative purposes and general trading than for productive activities. The programmes of adjustment with transformation should be such as to reduce inflationary pressures which give rise to a number of social and economic distortions such as diverting activities away from productive investment to speculation and financial manipulation; worsening income distribution patterns; cap- ital flight and reduced savings. Taking into account the structural origin of inflationary pressures in African countries, the relevant policy measures should center principally on production expansion. In addition, budgetary restraint especially with respect to reductions in government spending on non-productive and marginally productive activities should form part of the strategy of controlling inflation.

In the satisfaction of individual and national needs, it is necessary to embark on selective trade policies, involving elements of import controls and import management, particularly the prohibition of non-essential imports, tariff protection and quota restrictions to support changes in consumption patterns; encourage the pro- duction and use of local inputs; and promote viable infant industries. Thus industrialization, which has to be fostered vigorously if the internalization of the forces of production and the creation of greater internal dynamics are to be achieved, will have to proceed under an umbrella of some import protection if it is to succeed.

The whole issue of export promotion and revitalization of the traditional export sector has to be approached in a selective manner, and not just through generalized devaluation. There is need for African countries to take steps to diversify away from the existing monoculture of exports both in order to increase their range of options and reduce reliance on commodities which have very limited growth potential. In spite of the immediate gains from maximizing returns from a static comparative ad- vantage, the requirements of adjustment with transformation are such that governments should build into their programmes incentives which create a longer-term, dynamic comparative advantage based on new production structures and processing.

Export incentives need to be deliberately selective, recognizing the differentials in opportunities as between sectors and products for breaking into export markets and for expanding existing market shares. The appropriate levels of price incentives that need to be put in place will vary also from commodity to commodity, depending on world prices, import content, marketing margins, prices in neighboring countries, prices of competing commodities, required contributions to fiscal revenue, etc. Further, scarce foreign exchange resources available for spending on the export sector need also to be assigned to those commodities able to generate the largest net foreign exchange returns. Such pricing and resource allocation decisions cannot be left entirely to the market in the African countries given the severity of market imperfections on the continent. It calls for some selected interventions by the State.

Efficient utilization of available resources in Africa will also be enhanced to the extent that countries in the region effectively integrate their production structures and markets. This means that African governments will have to begin, through regional and subregional rationalization, to plan to remove some of the costly duplications of industrial production capacities which have arisen in the post-independence period, and to establish new industries designed to raise the level of trade within Africa and between Africa and the rest of the world. There must, therefore, be bilateral and multilateral agreements among African countries on industrial rationalization. Such a plan of rationalization and co-ordination, if extended to the production of African primary export commodities such as coffee, cocoa and copper, will enable the producing countries in the region to avoid the problem of the "fallacy of com-position", whereby production of the same range of export products is stimulated in a number of countries within and outside Africa through repeated increases in price incentives only to find that the net result is a reduction in the world price of the commodities in question, which thus frustrates the effort to raise export earnings. It may be useful to throw further light on the issue of complementarity of exchange rate and trade policy as essential policy instruments and measures for adjustment with transformation. Exchange rate policy has implications for the economy beyond its narrow and immediate impact on export and imports, and so does trade policy. Corresponding with the need for multiple exchange rates in Africa, therefore, is the need for import management policies, including varying elements of import controls, import duties and export subsidies in place of an outright reliance on trade liberalization. Indeed, exchange rate management in Africa must be supported and supplemented by a purposive import and export policy in order to bring about the required adjustments in existing foreign-oriented consumption and production patterns.

Some of the arguments against the use of selective trade policies and multiple exchange rates, involving the separation of foreign exchange markets into tiers either through exchange controls or a distinction between free and officially supported foreign exchange markets, relate to the difficulties of administration, the costs of operation as well as the possibilities of abuses and evasion. It must be admitted that a significant precondition for the successful application of multiple exchange rates and selective trade policies, is the existence of serious and good government, and the capacity to manage and enforce controls. What is often forgotten, however, is that multiple exchange rates do already exist in many African countries, in some cases receiving the reluctant endorsement of the IMF/World Bank under Window I and Window II. Given the emergence of parallel foreign exchange markets in most African countries, there is hardly any African country today which does not have a de facto dual exchange rate. Perhaps what is significant about the use of multiple or dual exchange rates in African countries as part of the policy package for adjustment with transformation is taking official cognizance of a de facto situation, and galvanizing policies towards deriving the maximum benefits from the use of the policy instruments in a purposive and streamlined manner.

Another significant question relates to the use of selective interest rates. Al- though there is little doubt that it is desirable to achieve real positive interest rates so as to encourage savings, it is at the same time necessary to take into account the fact that very high nominal interest rates have adverse impact on the economy as a whole. As such it is important to carefully consider the following issues .

- whether the savings effect of interest rates is large enough in the economy as a whole;
- whether the market, through interest rate adjustments, could actually take advantage of potential savings such as in the rural areas;
- whether nominal interest rates will not cause a high con- traction of the economy and lead to inflation through working capital cost-push;
- whether nominal interest rates will not result in a collapse of credit demand, especially if the economy is already in a recession.

Consideration of these issues in the African context would tend to suggest that very high nominal interest rates that are pushed up to ensure a real positive rate of interest could result in the stifling of investment, and in the reallocation of resources away from production activities, with relatively low rates of return, to speculative activities with quick and high rates of returns . It is such a consideration that has led to the proposal that different interest rates should be adopted on loans for speculative activities and for production activities. The choice of these different rates should be · such as to ensure that the weighted average of the two borrowing rates (i.e. on speculative loans and loans for real production) would result in a real positive rate which would be applicable for savings.

The Dialectics of Adjustment with Transformation

It is perhaps worth repeating that the policy packages that individual countries will adopt under AAF-SAP in respect of the on-going crisis on the continent will vary from country to country. Given the policy directions discussed above and the instruments and measures summarized in Table 5.2, it is left to each country, taking into account the peculiar circumstances of its development process, to design its own policy package within this overall thrust and frame, and to articulate the appropriate mix of complementary policy measures and instruments for achieving the goal of adjustment with transformation. It will, however, always be necessary to ensure the consistency of the political framework with the macro-framework and the policy directions, instruments and measures.

It is clear that the proposed policy measures and instruments under AAF-SAP should contribute to the simultaneous attainment of adjustment and transformation. For example, the combined use of selective trade and credit policies will interactively lead to releasing some of the pressure on the balance of payments by increasing exports, boosting food production and reducing imports. The judicious use of multiple exchange rates, in addition to stimulating production, should stem speculative capital flight and encourage the repatriation of capital and income transfers of incomes earned abroad. This should help to ease the crunch on the balance of payments position. Further, some foreign exchange resources will be released for investment purposes through the limitation of debt service ratios to manageable levels. At the same time, putting emphasis on supply rather than demand through the use of selective credit and interest rates policies to encourage savings and productive investments , while discouraging non-productive transactions, will facilitate greater domestic resource mobilization, enable African economies to acquire the necessary capacities to better cope with external and internal shocks, reduce structurally-induced inflation and ensure growth.

It should also be clear from the proposed policy directions and instruments and measures that national packages and programmes of adjustment with transformation will have to be much less dogmatic and much more pragmatic than orthodox programmes have been on the question of the role and size of the public sector. A judicious mix between expanded private initiatives and efficient government inter-vention is needed to create an environment that would enable both the private and public sectors to thrive and contribute effectively to the growth and development process. Government interventions in Africa have so far become discredited, not because there is an effective alternative in the form of efficient market mechanism but because of inefficient management, poor results and misallocation of resources. There is little doubt, therefore, that efforts must be made to improve the efficiency of the public sector and to ensure that government interventions are properly targeted and government-determined priorities are effectively pursued. However, in the con- temporary African situation, calling for wholesale replacement of the government with markets which hardly function is unjustifiable, since it is only as and when the necessary productive capacity is built and put in place that market forces would become competitive and progressively play an increasing role as an engine of growth and development. This means, firstly, that a pragmatic balance will need to be established between public intervention and private initiatives, with the emphasis being put on the creation of an enabling environment that is conducive to the effective functioning and contributions of both sectors to development, and, secondly, that government would need to yield to the private sector only progressively.

To administer the proposals of AAF-SAP will require the re-orientation and strengthening of the institutional framework at all levels, and the strengthening of existing administrative structures especially with respect to enhancing government ability to administer programmes efficiently. It also calls for greater accountability and dedicated and patriotic management on the part of the public sector. At the institutional level, there is need for excessively centralized bureaucracies to yield to local decentralization, grass-roots initiatives and community self-management. The potential and capacity of the individual and the private sector in general to participate in development must also be fully exploited. The increased role of the people in adjustment with transformation should facilitate the functioning of a system of checks and balances and safe guard against bureaucratic excesses.

The proposed policy directions and instruments in AAF-SAP will also require the harmonization of the design of national programmes of adjustment so as to avoid policy conflicts and costly duplication among countries. Bilateral and multi-lateral agreements must be entered into by African countries to specifically ensure such harmonization. Such agreements must cover the areas of regional food security and food self-sufficiency; environmental protection; rationalization of industrial production, taking into account the requirements of dynamic comparative advantages; encouragement of the production of intermediate and capital goods on sub-regional and regional basis and increasing the· 1evel of intra-African trade by adopting financial arrangements that will reduce dependence on foreign exchange and facilitate intra- African trade and the explicit encouragement of commodity barter trade. One issue which needs to be further clarified is the relationship between AAF-SAP and the national development plan or programme. Conventional SAPs have almost invariably been conceived and implemented outside the frame development plans in the African countries. The inevitable result has been that development plans have been put on hold, and short-term crisis management has become the poor substitute. Since AAF-SAP is essentially a framework of adjustment with transformation, it must, ipso facto, be consistent with national development planning and programmes, and indeed forms part of their core.

Finally, it is vital not only that the African countries adapt and use AAF-SAP in designing their adjustment programmes, but that Africa's bilateral and multilateral donors also create the conditions that are necessary for the successful implementation of such programmes. Given the holistic nature of the proposed alternative framework in terms of simultaneous focus on adjustment and transformation, it is clear that Africa's main requirements for external financing will be for larger autonomous in- flows from bilateral and multilateral partners. However, in the present circumstances of a transition for conventional SAPs to adjustment with transformation, the multi- lateral development and financial institutions will need to show increased flexibility both about policy perceptions and the need for non-autonomous resource flows to support the new generation of adjustment programmes in Africa.

The prospects for implementing the alternative approach would be greatly compromised if African countries fail on their part to rise to the challenge of increased domestic resource mobilization that would be required, and if Africa's development partners persist in predicating their assistance and support upon the strict conditionalities of adherence to the orthodox structural adjustment programmes rather than on the proposals contained in AAF-SAP. Even if AAF-SAP might involve higher levels of external non- autonomous resource inflows in the short-run, its essentially transformational nature is such that the need for balance of payments support and such other inflows would progressively become less as progress is made towards structural change and sustained development. It is therefore hoped that a broad consensus will be built around the proposals of the African Alternative Framework to Structural Adjustment Pro- grammes to make them a successful reality.

CHAPTER VI

Implementation Strategies and Monitoring

Introduction

To implement the alternative framework for adjustment and transformation (AAF-SAP) outlined in Chapter 4 and whose policy directions and instruments were spelt out in Chapter 5, a principal shift has to be made from current approaches. It is essential that, henceforth, country programmes for the alternative adjustment with transformation process in Africa should be and remain the primary responsibility of African governments and people within the context of a new partnership. It is the responsibility of the international community to support such programmes. This is a fundamental departure from the current practice in which external development agencies play a principal role in the formulation, design, implementation, and monitoring of adjustment programmes in member states. The gradual erosion of sovereignty implied in the growing role of officials of international financial and development institutions and donor agencies in policy design, implementation, and monitoring without any accountability to the people of Africa will be reversed by the adoption of the implementation and monitoring strategy outlined in this chapter.

The process of formulation of these programmes should avoid the mistake of excluding the people from full participation in the formulation, implementation, and monitoring of adjustment programmes. As the well-being of the people is principally at stake through the implementation of these programmes, it is necessary that consultative machineries be established to develop the consensus that is so essential for the successful implementation of national programmes for adjustment with transformation.

Implementation Strategies at the National Level

The implementation of policy packages and instruments outlined in Chapter 5 must be based on a genuine and active partnership between the government and the people through their various political, social and economic organizations at national, local and grassroots levels. This requires a reorganization and /or realignment of the decision-making process for the design and implementation of adjustment with transformation programmes to ensure maximum co-operation between public and private sector agencies, and between the government and the governed, as well as to mobilize popular support.

The key role of the government, in this respect, will embrace the creation of an enabling environment and institution building for effective implementation and vigorous support for grassroots initiatives. On the other hand, democratization and popular participation will encourage the people to increase their development effort and to accept whatever sacrifices that may be implied by the programmes, thereby consolidating, and deepening the process for national self-reliance. There are several key elements of this implementation strategy which must be taken into consideration.

Design of national programmes for adjustment with transformation: The process of formulating adjustment and transformation programmes must integrate policy formulation with policy implementation and evaluation. It should, therefore, be based on the following procedures and considerations:

- democratization of the decision-making process at national, local and grassroots levels so as to generate the necessary consensus and peoples' support;
- regular and effective inter-ministerial consultations to ensure that all ministries responsible for the productive and social sectors, and all executive agencies and public sector enterprises are fully involved and take responsibility for the final programmes adopted;

- full involvement of the central planning machinery both in the design and implementation of adjustment with transformation programmes so as to take into account short- and long-term development objectives;
- consultations between the public sector and the various sections of the private sector so that all social groups play their part in the mobilizations and utilization of national resources for development; and,
- grassroots consultations through local authorities, private associations, including indigenous NGOs and grassroot-level communities.

Popularization of the programmes: There is a strong need for evolving procedures for the dissemination of information to the general public on the implications and challenges of adjustment with transformation programmes as well as on their impact on the economy and the people. All available modes of mass media should be utilized. As far as possible, the public education exercise should rely more on the general public and organized interest groups, rather than government agencies, so as to enhance the popular participation aspects and the support of the programmes by the people.

Inter-Country Co-operation in the Implementation of Programmes of Adjustment with Transformation

Co-operation between and among African countries in harmonizing their approaches to the alternative adjustment with transformation programmes is essential in complementing the efforts of African countries towards the attainment of collective self-reliance. In this regard, the ECA secretariat, including the subregional MULPOCs have an important role to play.

African countries, especially those belonging to the same economic grouping or subregion, should make all efforts to avoid duplication of production units beyond the capacity of the potential market. They must also pool their resources with a view to optimizing output. Similarly, the required needs to be satisfied should be harmonized. For example, any attempt in a given country at changing consumption patterns or at internalizing production factor inputs maybe nullified by the persistence of undesirable consumption patterns in neighbouring countries.

The selection and application of policy instruments and measures is, perhaps, the most important area requiring harmonization of programmes of adjustment with transformation among African countries. For example, more often than not lack of coordination in exchange rate, pricing or interest rate policies has resulted in the undermining of some of the on-going structural adjustment programmes. Since the alternative framework covers both the short-, medium- and long-term, it is important to ensure that policy instruments and measures adopted by individual African countries are well coordinated among them so that they can achieve the desired effects.

130. Finally, African countries must determine the appropriate mechanisms for ensuring the overall co-ordination of national programmes of adjustment with trans- formation. In this regard, some of the existing mechanisms such as joint inter-country commissions or subregional economic groupings will have to play an important role.

Financing of AAF-SAP Implementation

There is need to mobilize fully both internal and external resources required for AAF-SAP implementation of programmes designed under the new framework. Precise estimates of the quantity of resource s needed to finance these programmes have to be worked out at individual country level. It is necessary, first, to design national programmes on the basis of AAF-SAP prescriptions which would then be followed by determination of resource needs. Some of the policies and measures already identified (see Table 5.2) are directed towards the mobilization of the domestic and external resources that would enable African countries to finance their pro- grammes for adjustment with transformation. These include:

1. improved international commodity trade environment;
2. appropriate policies and measures for mobilization of domestic resources;

3. more efficient utilization of the limited domestic resources especially the direction of resources to economic and social sectors which are accorded high priority such as agriculture and education;
4. reduction of outlays on external debt servicing;
5. additional resources being generated from the growth of African economies;
6. increased external resource flows from bilateral, multilateral and private sector sources;
7. promotion of transfers by nationals living abroad; and,
8. the prevention of financial leakages through capital flight, over-invoicing of imports and under-declaration of export earnings.

A vigorous implementation of many of these measures should lead to greater mobilization of resources under AAF-SAP than under the current SAPs.

Export earnings constitute a major source of autonomous resources for financing adjustment with transformation. It is important, therefore, for solutions to be found for commodity problems and for issues that have been under international discussion for over two decades including the establishment of a generalized pro- gramme for stabilization of export earnings, acceleration of the establishment of the Common Fund, and removal of barriers to African exports of processed and non-traditional exports to be resolved. An improved international trade environment could help avert the kind of situation in which Africa lost almost US$19 billion in 1986 through a sharp fall in export prices. The commodity wholesale price index for Africa at 1980 prices declined to 54.2 in 1988.

External debt relief provides another important area for generation of resources for financing AAF-SAP implementation. By limiting the debt service ratio to man- ageable proportions, larger amounts of resources would be released for the adjustment process. In 1988 Africa's debt servicing obligations amounted to US$ 29 billion. It would make a great deal of difference to African economies if a substantial part of these transfer s were to be available for financing AAF-SAP. Furthermore, Africa has become a net exporter of capital even to the IMF. It has been estimated that Africa, in net terms , transferred approximately US$1 billion to the IMF in 1986 and 1987 which is almost 1.4 per cent of the annual exports of goods and non-factor services of the region . If this trend were to be reversed, additional resources would become available to Africa for the adjustment process.

Autonomous external resource inflows, both public and private, have been declining in real terms throughout the 1980s. More resources would become available for the adjustment process if thi s trend were to be reversed.

Finally, given the transformational nature of the adjustment programmes un- der AAF-SAP, it is evident that non-autonomous inflows to African countries in support of AAF-SAP would have a bigger impact and indeed constitute a more productive and optimal approach to assisting Africa.

Monitoring

The major objective of the monitoring process for adjustment with transformation programmes is the assessment of the extent to which objectives and targets are being achieved. There is need, therefore, for each African State to establish monitoring systems that are appropriate to its programmes.

In general, however, monitoring systems should be designed to cater for the assessment and evaluation of progress being made in achieving the main objectives, policies and targets of the programmes. In this regard, while macro-economic performance indicators, focusing on economic growth, aggregate demand components, population and related data, will still be required, there is a strong need to go beyond these indicators to the assessment of the programmes impact on the quality of life of the people and the extent of progress in meeting their basic needs as well as in relation to the process of transforming the production structures and consumption patterns. The monitoring systems should also provide for measurement of the extent to which people are being involved in the development and decision-making processes.

It will be essential to organize national, subregional and regional data systems which facilitate the assessment and monitoring of the impact of adjustment with transformation programmes, so as to provide early warning against any deviations from objectives and set goals.

The institutional framework already established by the MULPOCs and the various sub-regional economic co-operation groupings in Africa is appropriate for monitoring the implementation n of harmonized inter-country fiscal, monetary, trade, agricultural, industrial development and other policies and programmes for adjustment with transformation. The formulation and establishment of monitoring systems for the latter should be accorded priority by member states.

There is also an urgent need for the establishment, at the all-Africa regional level, of a comprehensive system for monitoring the major elements of the adjustment with transformation strategy. Regional institutions, such as ECA, should not only take appropriate actions for the establishment of the system and the sustained monitoring of the process of adjustment with transformation in Africa but should also play a more active role in assisting countries to design their programmes under AAF- SAP.

International Support for the Alternative Adjustment and Transformation Programme

The international community particularly multilateral development and financial institutions and bilateral donor agencies have a critical role in the implementation of the alternative adjustment with transformation process in African countries. They should encourage and support programmes designed by African governments under AAF-SAP if they are to ensure that the assistance, they extend to Africa leads to a sustainable process of development.

The case for the assumption of primary responsibility by African governments for the design of their own adjustment with transformation programmes has already been well made. It will be necessary, however, for multilateral, bilateral and non-governmental organizations, in collaboration with national governments, to formulate their assistance programmes taking full cognizance of national programmes.

Conclusion

No adjustment and transformation programmes, howsoever sound and in- innovative in their blueprints, can achieve the objectives of development if they are not properly implemented. Indeed, half-hearted commitment to programmes often leads to policy discontinuity and the same is true if programmes are under-financed, especially in terms of external resources. Implementation, thus , constitutes one of the most vital elements in the transformation process. One has, therefore, to accord as much importance to the organization of the implementation machineries and monitoring systems as to the design and formulation of programmes and policies themselves.

While there is no doubt about the imperative need for Africa to follow the path which this study has so carefully mapped out, there is more than ever before in the history of the continent the need to build consensus around the framework, the policy direction and instruments and the implementation strategy contained therein. The building of such consensus is so vital to the economic well-being of the continent that no effort should be spared by African leaders in pursuit thereof.

UN Economic Commission for Africa,1989