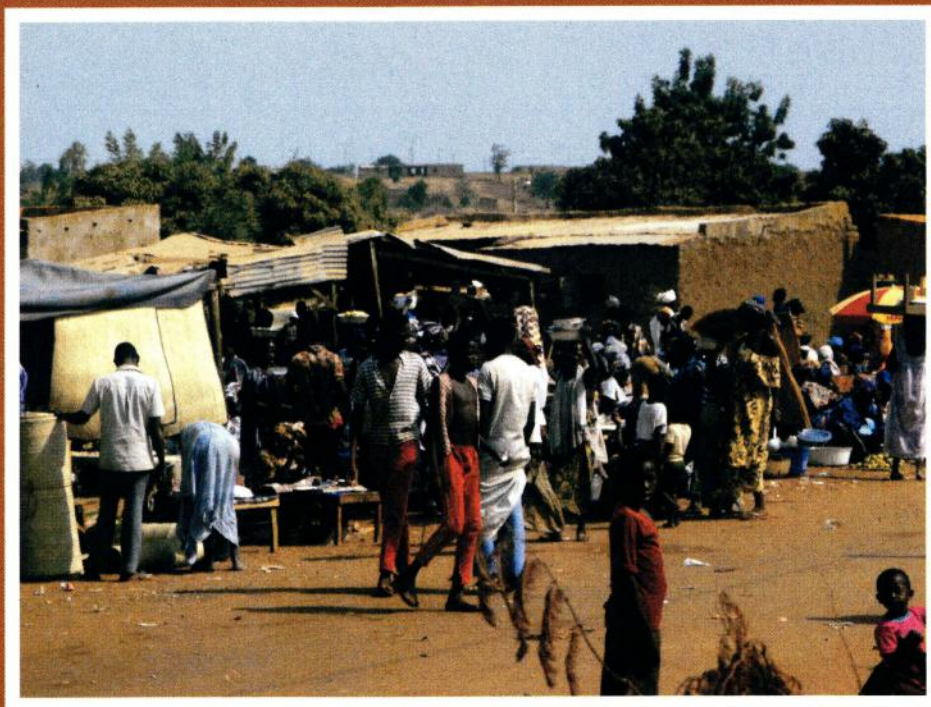
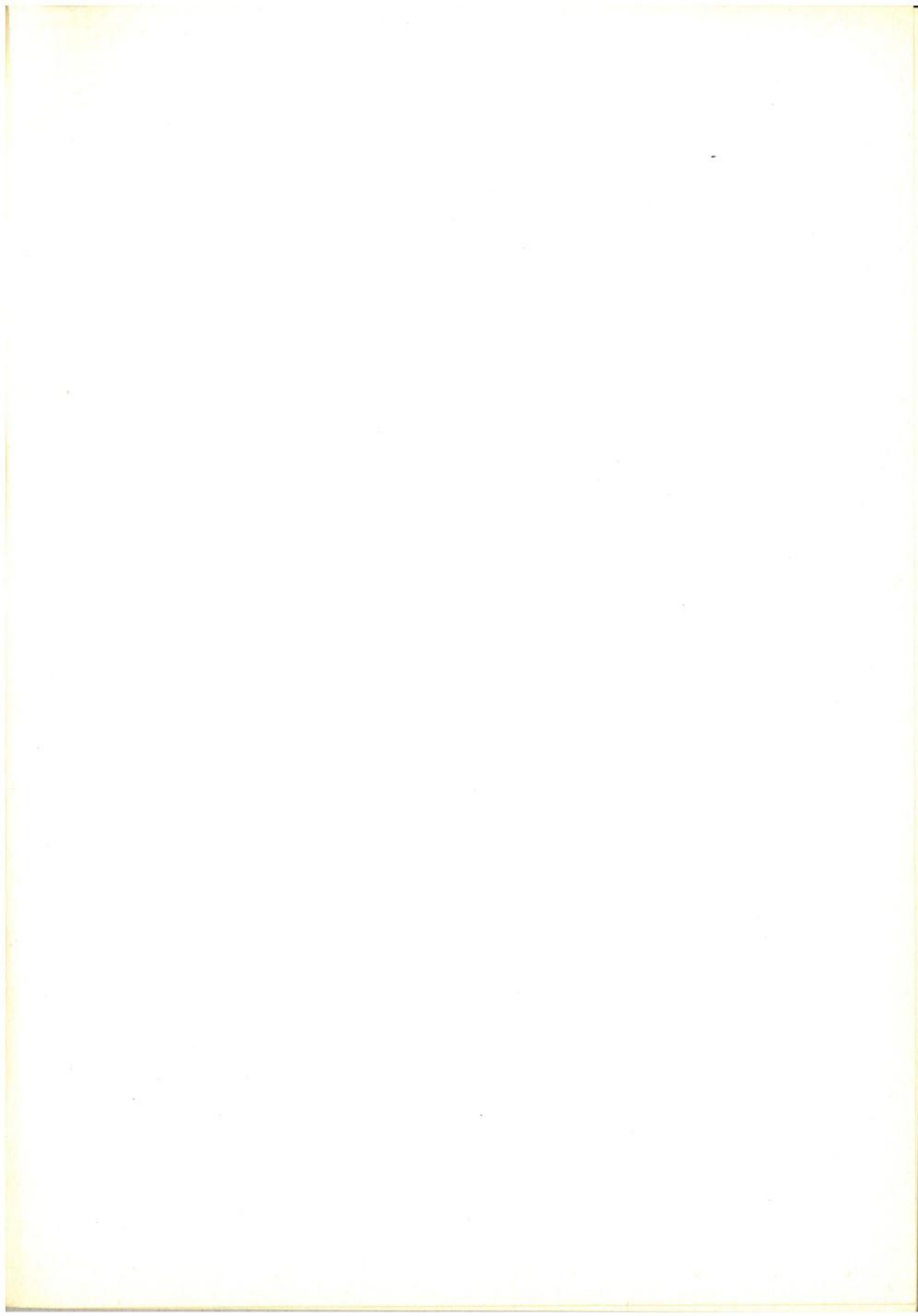


Enzo Caputo - Roberta Rabellotti
Preface by Paolo Leon

**NEW APPROACHES
TO DEVELOPMENT COOPERATION**
BEYOND STRUCTURAL ADJUSTMENT
THE EXPERIENCE OF GHANA AND SENEGAL







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CONTENTS

PREFACE	page	7
1. INTRODUCTION	»	13
The object of this paper	»	13
The main issues of our work	»	13
2. SAPs PACKAGES IN SUB-SAHARAN AFRICA	»	17
The basic package	»	17
1. Austerity	»	18
2. Devaluation	»	26
3. Liberalization of domestic markets and privatization	»	30
4. Efficient public investment	»	34
5. Public management improvement	»	36
3. A REVIEW OF SAPs COMMENTS	»	39
4. STRATEGIC FRAMEWORK AND PERSPECTIVES FOR THE 1990s	»	41
Introduction	»	41
African LDCs structural crisis	»	42
Some priority objectives	»	44
Which role international cooperation could play?	»	46
5. TWO CASE STUDIES: GHANA AND SENEGAL	»	49
Why these two countries	»	49
Ghana: the Economic Recovery Program	»	50
Senegal: Medium-Long Term Economic and Financial Adjustment	»	63
6. DATA ON GHANA AND SENEGAL	»	73
<i>Bibliography</i>	»	89
<i>List of abbreviations</i>	»	93



PREFACE

Although the reviews and the discussions on structural lending abound, much of the literature is official in character and does not examine sufficiently the points of view of the different parties to the agreements. This book uses a systematic approach and is more candid than other efforts.

A first aspect revealed that the analysis is the doctrinary element contained in the SAP. This is not to be underestimated, as it is based on a solid economic instrumentation. Since the theory underlying the SAP is that of the general economic equilibrium computable models, which are of Walrasian derivation, and include a hypothesis of international trade specialization where all production functions are equal, the basic deficiency of the structural adjustment programs is readily perceivable: they assume that supply elasticities are always sufficient to determine an equilibrium, around a sustainable rate of growth. In the theory of the SAP, the maximum efficiency of the individual producers is always translated into maximum efficiency for the economy as a whole. As can be seen, the Walrasian world reproduced in the SAP is virtually perfect.

I had the opportunity to participate in a few World Bank missions, preparatory to the creation of structural adjustment programs. I can testify of the great efforts made — often beyond any realistic analytical possibility — to demonstrate that it is actually possible to determine the existence of enterprises that respond to the profit motive, as is implicit in the Walrasian world, without increasing the degree of monopoly.

The model underlying the SAP originates from a real requirement (the growth need) and from a fictitious one. The

latter is that nearly all the Sub-Saharan countries do not actually need a structural adjustment. They certainly need growth, naturally based on a continuous structural "change"; however the SAP implies that there are errors of economic policies at the basis of the lagging growth process — not a structural necessity. Now, it is always true that errors exist, but history cannot be based on mistakes. In particular, it is not always true that the central responsibility for slow growth is in the agricultural prices. In many cases, including those which are discussed below, even when the structural adjustment program is able to establish more remunerative prices for agriculture, it does not follow that the producer obtains the benefits of the higher price: a part of the higher price is attributed to the distribution network. A redistribution of income is thus created which benefits that part of the urban middle-class which should have been sacrificed by the price increase: the only novelty (unintentional) is the fact that the benefitted class is a different urban middle-class from the one that originally provided the consensus which determined the particular political equilibrium of the country.

Political equilibrium is a very important aspect in a SAP, as emphasized in the following chapters. The classic example is that of exchange overvaluation policies, which favour the modern sectors. A simple political analysis would show that such policies are pursued because the consensus which is at the basis of national states is founded on the (relative) well-being of large urban masses: in Africa, like everywhere else, a national state needs a national population, and this is not the population of the rural areas. It is the large urban masses which constitute the strength of the national states; and their welfare is ensured by agricultural prices which are relatively low with respect to industrial and service prices. An overvalued exchange rate generates this situation: how else could we explain the policies of the new states during the last 25 years?

The devaluation policies included in SAPs, as described by Caputo and Rabellotti (q.v.), are actually policies of declining flexible rates. The Monetary Fund is a master of this approach: for years it has advocated such policies in Latin America; is

there a risk of southamericanization of African countries, in relation to the new exchange rate system created with the structural agreements? With a falling flexible rate, something new occurs that neither the World Bank nor the International Monetary Fund seem to understand fully.

The flexible rate generalized a higher degree of protection in the country that adopts it; the price function established by the producers changes with respect to that practised with a fixed exchange rate: the producers expect that, if they increase their prices nothing happens to their share of the market, because the exchange rate will be subsequently devalued. We have experienced such a situation in Italy and we are well aware of its peculiarities; a generalization of the degree of monopoly occurs for all the domestic producers; in this situation, the large and modern enterprises find it difficult to survive, whereas the small enterprises enjoy a quasi-rent; in other words, the relative power of the small enterprises increases with respect to the large ones, and the diffusion of entrepreneurialship is favoured. In the developing countries, however, where entrepreneurial capacity is low and enterprise culture often absent, the flexible rate policy does not generate new enterprises; instead, it generates, and Caputo brings it out well, higher rents to existing producers, reduced productivity and lesser organizational changes.

Lastly, there is something in the application of the structural readjustment programs which is disconcerting: the conditionality proposed by the international organizations is weak, since it cannot always be satisfied. In a high number of cases, it is impossible to impose pre-established conditions. Monitoring of the differences between model and reality cannot be performed with too high precision, on the part of the international organizations, otherwise it may become apparent that differences are often due to international conditions rather than misbehaviour on the part of Governments. In this situation, the international organization does not know what remedy to adopt, and the stringency of SAPs decreases.

This seems to me one of the major problems of the structural adjustment programs. If we compare the practices of

the World Bank and the Monetary Fund with the behaviour of the EEC, which is moving toward programs of this nature, we become aware of a difference. Though the Europeans — more prudent and less doctrinaire — apply substantially the same type of rationale and maintain the same discretionality of the IBRD and the IMF, they declare such discretionality (and the resultant flexibility) from the beginning rather than referring to it later, thereby allowing the political problems to emerge more clearly. The behaviour of other bilateral donor countries is similar: in this regard it is interesting to observe the behaviour of France, where the same doctrinary basis of the SAP is utilized, but where the quantitative targets are modified by political necessity, often breaking the logic of the economic model.

One obstacle faced by the SAPs has been that they had to operate at a moment in a high rates of growth diminished all over the world, the incremental capital/output ratio increased (up to 10-15 times) and interest rates rose dramatically. In this situation, it was necessary for profit rates to increase considerably; in countries like those of Sub-Saharan Africa this is out of the realm of possibilities. Thus SAPs could only be destined to fail, and those who were formulating them, knew it; however, it was thought that the discipline of a structural adjustment program would have constituted the justification for a flow of funds from abroad which, albeit small, would have been difficult to obtain.

If today we recognize the defects of the SAP, we must however understand that they do not make other forms of aid, such as project financing or the occasional aid to the balance of payments, preferable, and this is so since 1971, when the Bretton Woods agreement was broken. As fixed exchange rates no longer exist, it is not possible to reconstruct the aid rationale which was extant up to the first part of the '70s. Something else is needed, and inevitably of a SAP type. In fact, it is not possible for the international community to imagine an unconditional flow of aid. Abstractly, the donor governments could have imagined an automatic form of resource distribution to LDCs. However, in the context of the

present international relations, the lack of discretionality is considered a political loss on the part of the individual donor governments. One thing is certain, even in this more limited field: better SAP formulas than others can be produced, and instead of having ex ante strict agreements and subsequently loose ones, it is perhaps possible to adapt them better to the conditions of the individual countries.

For this to happen, however, a greater dialectic is needed between donor countries and the international organizations. Better, a debate is needed between the United States and Europe, in order to rationalize the European flexibility, so that it can produce a model of SAP, different from its more stringent version now in use. On their part, Europeans cannot cloth themselves with nobility thinking that they are not responsible for the debt of the LDCs. This debt is but the other facet of the recycling of petrodollars, which was the salvation of the European countries. The fact that the private American banks are the direct cause, does not exclude world interdependence vis-à-vis this problem.

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1. INTRODUCTION

The object of this paper *

Implemented world-wide, structural adjustment policies have been the object of numerous studies over the past ten years. Rather than presenting a synthesis of such complex and varied literature, the aim of this paper is to look beyond adjustment identifying new proposals concerning development research and strategies. The more consolidated and valid hypotheses of critical analyses elaborated until now will be tested with a focus on the Sub-Saharan African experience.

The choice of this region reflects two fundamental concerns: first, the impossibility to address the issue in planetary terms unless on a purely theoretical level; secondly, the urgent need to rethink most abstract and practical simplifications which, until now, have characterized the analyses of the region's problems.

The main issues of our work

The most accurate analyses conducted recently on adjustment experiments (Taylor 88, Gyfalson 87, etc.) highlight a number of essential points, especially with regard to the regional situation:

1. when the programs were combined with a substantial

* A first version of this paper was presented at the International Seminar "Which Cooperation with Africa in the 90s", which was held in Rome on April 4-5, 1989, at the Istituto Italo-Africano.

increase in resources from abroad (grants and public loans) and strong measures aiming at stimulating domestic demand (essentially weakening the rent-based interests that benefited from rigid Government control of exchange rates and certain key prices on the domestic market) they met with some degree of success in the short term as far as stabilization and growth are concerned: this is, however, the almost exclusive case of Ghana;

2. a totally different outcome was reached in most African countries who signed SAP agreements based on austerity-cum-liberalization packages. Compared with similar economies taken as control cases, only few positive results have been attained with regard to stabilization while economic growth was often negative: examples of this include the Ivory Coast Tanzania, Somalia, and the countries of the Sahel;
3. in the few countries where the SAP did generate short-term positive effects, new imbalances and perverse or simply unforeseen responses cropped up after a few years, threatening the country with the risk of returning to a serious state of crisis (Ghana);
4. experience in the control countries suggests that the situation would not have improved had most countries that adopted SAPs not done so.

These considerations are widely confirmed by our studies on Sub-Saharan Africa, and by most recent World Bank publications which came out after the first presentation of our paper (April 1989). Consequently, the discussion presented in this study can be summarized as follows:

- the therapeutic package proposed by the SAP had little direct impact on the macro-economic situation of the countries of Sub-Saharan Africa (items 2 and 4 above). In general, its impact on public budgets has been positive and it would be advisable to limit its proposals towards attaining this objective;

- the linkage existing between IMF/WB support and the access to public and private external financing precludes the formulation of more adequate strategies and drains the resources which are necessary to implement them. SAP ideology had a negative indirect impact on all proposals aimed at solving crises due to this linkage;
- SAP implementation proved to be successful at a macro-economic level (Ghana was an isolated case) under specific circumstances: a) when an enormously overvalued currency made some of the typical measures of the package (devaluation) particularly appropriate, and b) when unforeseen external circumstances (the boom of public and private domestic demand that was generated by a massive inflow of capital from abroad) literally turned upside down some of the doctrinary premises of the package itself (e.g. austerity);
- although some heterodox combinations would be more appropriate for specific situations and are likely to generate positive effects on the economic cycle, the benefits would be fragile and their reversibility almost certain. This demonstrates that any adjustment will not work unless it is placed in a strategic framework in order to distribute priorities and address both the sectoral and social issues. Only such a framework can allow the selection of the appropriate set of economic policies, not only to stimulate the present situations but, above all, to lay the groundwork for future development;
- a new effort is needed in the fields of theory, research and experimentation, for setting up consistent medium and long-term cooperation programs in the 1990s in order to verify this strategic framework and its relative policy packages in the different African sub-regions.



2. SAPs PACKAGES IN SUB-SAHARAN AFRICA

The basic package

The policy packages, proposed by the IMF and applied in substantial agreement with the WB, are practically identical whether applied to Sahelian countries, Italy or Brazil. They are based rigorously on orthodox/monetarist theories, essentially on the equation *demand* = *supply*, in which the quantitative levels of supply are considered to be given. Their objective is to make appropriate modifications in the demand through monetary manoeuvres in order to set off a process of stabilization, and "consequently" of growth.

Some other basic assumptions can be added to this theoretical framework: if the reduction of domestic demand is associated with a full liberalization of exchange rates and domestic prices, the prices of non-traded goods will decrease while the prices of traded goods, which are regulated by external market, will remain constant; hence, imports will drop and the supply of exportable goods will go up (IMF 87).

Whereas this second phase of the process — the reallocation of resources, stimulated by liberalization and oriented towards export development — is the realm of action mainly of the WB, the IMF reserves for itself the "more sophisticated" realm of cuts in spending: credit restrictions, freezing of public salaries, cutting of budgets for investment and current expenditures, etc.

The above model is totally divorced from distributional patterns, intersectoral linkages, sectoral features and from the other specific aspects of the different regional and national economic realities. It deals with aggregated variables and

assumes that conditions and responses are the same throughout the world.

Many classifications have been made of the measures derived from the basic model (Martens 86 and 87, IMF 87, Corbo 87, Taylor 88). We shall examine the following Standard Policy Package:

1. - austerity;
2. - devaluation and liberalization of foreign trade;
3. - liberalization and privatization of domestic markets;
4. - reorientation of public investment projects;
5. - improvement of management within the public sector.

1. *Austerity*

Incongruences and inadequacies in the approach

Austerity policies represent the heart of the SAPs supported by IMF. The theories of Polack (1957) and Robichek (1967) were adopted as the basis for formalising a Basic Financial Programming Framework (BFPF) (IMF 87), the essential point of which should be the following:

to manipulate the growth of domestic credit to ensure that it does not exceed the growth of total money stock (foreign reserves + domestic credit), determined in conditions of equilibrium by the real growth of output.

Through a series of relationships the factors that determine a supposedly excessive growth of domestic credit are identified and action is taken to slow down the domestic money demand.

The most common instruments are:

- increase in tax inflows;

- cuts in public current expenditures;
- cuts in public investments;
- quantitative ceilings on increases in credit and interest rates.

Under the first African SAPs, implemented during the late 70s and early 80s, the austerity measures appeared to be more organic and widespread than the other policies of the supply-side package, without being balanced by inflows of external resources as it is more often the case today.

Many of these SAP agreements have been broken and the results, according to an evaluation made by the IMF itself (IMF 85) appear to be dramatically disappointing.

The following table presents the data before and after the year 1980-81, concerning 22 countries under SA and/or EFF programs. The source is IMF (1985), in which program indicators of performance are compared to those of the previous year.

	Economic Growth	Inflation	Ratio of C.A. Deficit to GDP	Ratio of Budgetary Deficit to GDP	Net Domestic Credit Growth
% of the sample having registered a «positive» performance (+ or -)	46 (+)	48 (-)	48 (-)	41 (-)	51 (-)
% of the sample having registered a «negative» performance (+ or -)	54 (-)	52 (+)	52 (+)	59 (+)	49 (+)

Whereas some correlations can be roughly noted among the above data, the results of the austerity packages applied to these countries appear to have been even more astonishing.

With regard to economic growth:

- 60% of the performances regarding domestic borrowing are correlated with growth in a way totally opposite to that foreseen by the mentioned packages. More precisely, 33% of the countries succeeded in attaining the prescribed credit restrictions but experienced a decline in growth whereas 27% of the countries increased domestic credit but also experienced an increase in growth;
- with regard to inflation, 60% of the performances are inversely correlated with the growth performances;
- regarding the current account balance, 52% of the sample experienced correlations that did not corroborate the theoretical hypotheses;
- regarding the budgetary deficit, 48% of the sample presented anomalous correlations.

With regard to inflation:

- the growth of domestic borrowing is negatively correlated with inflation in 40% of the cases;
- the growth of budgetary deficit and that of the current account deficit are negatively correlated with inflation in 36% of the cases.

With regard to the current account balance:

- in 33% of the cases, the growth of domestic borrowing is negatively correlated with the increase of the current account deficit;
- in 55% of the cases, the increase in the budgetary deficit is negatively correlated with the increase in the current account deficit.

These correlations must of course be verified using appropriate methods. However, what we have seen suffices to demonstrate the theoretical weaknesses of the austerity packages, particularly when applied uncritically to countries like the ones we are studying, where external forces and domestic distribution forces play an important role overturning the equations of the BFPF.

The more recently initiated SAPs aim at combining the

austerity packages with supply-side action and measures that support the balance of payments. Looking at the measures adopted under SAPs initiated in the main Sahelian countries, it seems that apart from Mali a policy for moderate expansion of borrowing has been accepted and the focus is placed above all on rationalizing and reducing public expenditure.

The assessment on SAPs impact does not seem less negative if we consider the 1988 WB Report on Adjustment Lending. A general assessment can be based on a series of performance indicators, such as GDP growth, export growth, inflation etc. The table below compares the performance of AL (Adjustment Lending) countries and NAL (Not receiving Adjustment Loans) countries, according to some indicators such as GDP growth, export growth, inflation, etc.

	N. of countries	N. of S/S countries
N. of AL recipients	30	15
N. of NAL countries	63	22
1. GDP growth	16	7
2. Invest/GDP	11	6
3. Export growth	17	10
4. Real Exchange Rate	20	11
5. Current Account Balance/GDP	21	8
6. Budget Balance/GDP	12	6
7. Inflation	16	5
8. Ext. Debt/Exports	16	9
9. Debt Service/Exports	16	7
Share Showing Improvement	0.54	0.51

It shows that AL recipients did not stand so well, and particularly it seems that the burden of adjustment lending fell heavily on investments, as indicated by the relative worsening of the investment GDP ratio in nearly two-thirds of them.

Looking at Sub-Saharan Africa, the situation is not better and the Bank itself affirms: "Various Bank reports on

Sub-Saharan Africa have noted this slow response to policy changes, explaining that a longer time perspective is required for broader institutional changes".

Basing its analysis on the performance of 30 AL countries, the Bank draws the conclusion that "a modest improvement occurred in spite of a relatively more unfavourable environment" and it adds "the improvement is not significant for the Sub-Saharan countries".

At this point, it is difficult to explain why the Bank, together with UNDP came out in March 1989 with the highly contested Report on Africa ("Africa's Adjustment and Growth in the 80s"). In this report the Bank position changed radically from the one presented in the 1988 quoted report. In fact, it affirms that "encouraging signs", even "signs of a turn-around" can be detected in Sub-Saharan Africa's economy. However, this new Bank's evaluation was immediately criticized by ECA (1989) and was significantly contradicted by another Bank's report in 1989.

The ECA study emphasizes the statistical anomalies leading to the optimistic picture presented by the Bank. In short, as shown by ECA analysis, the Bank's results are reached through a misleading choice of data, groups of countries and reference periods. Finally, ECA report points out the total neglect of social and long-term aspects of African conditions in other words, the absence of a developmental perspective.

The same conclusions are reached by "Beyond Adjustment. Towards sustainable growth with equity in Sub-Saharan Africa" (1989), in which the long term technological and institutional issues are emphasized, against the narrow perspective of the ongoing Structural Adjustment Programs. A similar approach emerges from WB/MADIA recent studies, carried out under the direction of Uma Lele.

Notes regarding specific measures

The policies aimed at *improving tax inflows* led undoubtedly to an increase in public revenues, relieving the pressures of budgetary deficits of many Governments. According to the concepts advanced by the IMF, however, these policies should be limited to direct taxation and the reduction of subsidies on public tariffs and other products. An extremely important instrument, namely a selective tax on imports that would bring in significant revenues and at the same time help to modify the distribution models, is considered to be outside the logical framework of the liberalization of exchanges and is therefore discouraged. This is what happened in 1986-87 in Senegal, where the exchange rate is fixed for the entire CFA region and import taxation and export subsidies should be the only possible system to obtain some devaluation at a national level.

The *reduction of current expenditures* is obtained:

- by freezing salaries and reducing public employment. This therapy attained paradoxical dimensions in Ghana and it has been proposed for the majority of the countries. It seems to be undeniably effective at first, because it weakens the consolidated rent-based positions and stimulates productivity in the public sector; nevertheless, two simultaneous phenomena soon arise: (i) the concerned pressure groups recover the lost privileges or succeed in bypassing the measures (in Mali in 1985, the response to salary freezes was a reduction in income taxes); (ii) efficiency drops sharply after the initial improvement and corruption spreads rapidly (Ghana). Even in this case, the logic of austerity itself has no chance to work in these countries. The only way to consolidate the cuts in public spending in this sector would be to implement policies that open up alternative opportunities for employment and remuneration;
- by cutting expenditures for ordinary maintenance and management of basic services. Here, we refer to the work

- of Cornia et al. (87) for an accurate critique of the often disastrous effects that have been generated;
- by reducing direct public involvement in marketing activities as well as subsidies to state-controlled agencies and public-owned enterprises. This per se is a healthy measure in view of the generally inefficient nature of the subsidized structures and their essential role in protecting the rent-seeking groups. However, as in the case of salary freezes, it is almost always ineffective because of the lack of alternatives to austerity: in Senegal in 1985, it was decided to wind up or privatize 34 public-owned enterprises but no concrete decision was ever taken.

Cuts in public investments are a basic aspect of austerity policies. Their effectiveness is dubious, as in the case of cuts in expenditures on services. In fact, even before agreeing to SAP, the financial state of the countries in question had degraded to such low levels that they had already begun cutting expenditures on social services, basic infrastructures, research and any other sector that did not directly affect the interests of the most privileged social categories. The grave error lies in having formulated a theory stating that adjustment could be implemented without a strong increase in public investments in the key sectors that could stimulate domestic markets, in strengthening human resources, etc. The blocking of such investments in response to external shocks in the early 1970s was one of the factors that helped turn the economic crisis of the region into an endemic state. The austerity approach dictated by IMF is likely to have protracted it throughout the 1980s.

Finally, *credit manoeuvres* have recently become less predominant. However, current ideas continue to follow the lines of the aggregated magnitudes of the BFPF, focusing on a freeze of the money demand (particularly at public level) and in countries such as Ghana, allowing interest rates to move upwards. Although not necessarily harmful, these measures did not address crucial problems in the specific field of

domestic credit, particularly the rationing of credit in favour of protected and inefficient sectors, at the expense of self-sustaining sectors, in both urban and rural settings. Every proposal for the restriction of rationalization of borrowing introduced by the austerity packages only enhanced this phenomenon: in Senegal, the reform of rural credit in 1983 suspended the lines of seasonal credit; in 1985, the latter were reintroduced, but only institutional cooperatives were eligible. The most efficient smallholders, not having access to the banking system, must face financial charges as high as 100%. The implementation of policies supporting informal financial markets which supply the mass of self-sustaining producers and linking such markets with the banking system (Caputo, 88) would make it possible to escape from the currently ineffective alternative between growth and reduction of credit, and thereby address the existing problems in a satisfactory manner.

On the basis of the analyses carried out, it is clear that our judgement on how the austerity approach is applied to the countries of Sub-Saharan Africa has been totally inappropriate. The only appropriate measures were those that sought to rationalize public spending and the resulting dismantling of the consolidated rent-based positions. However, even these measures were not applicable within a context of forced reduction of aggregate demand.

All the alternatives we have outlined call for a significant increase in external resources in order to open up perspectives for expansion that can modify the existing setups of distribution within the target country. The formulation of such alternatives calls for different conditions which we discuss later. At this point, it is enough to say that the road followed by SAPs and the support they have received from the developed world slowed down the pace of new development perspectives over a period of about fifteen years.

2. Devaluation

Considered as the starting point for a total liberalization of the currency market and foreign trade, devaluation is one of the most typical and frequent supply-side measures included in SAPs.

It is intended to raise and stabilize (through the *one price* law) the domestic currency price of tradeable vis-à-vis domestic goods and hence to shift production towards the former.

Devaluation is thus seen as a mitigating element in the decline of economic activity and employment, which was brought about by a drop in the demand in the non-traded industries.

In most Sub-Saharan African countries a devaluation is necessary to eliminate some basic distortions in the price system. An overvalued exchange rate is the instrument which many African Governments use to modify the internal terms of trade in favour of the élites and the protected social strata, at the expense of the self-sustaining sectors. Thus, the costs of the latter, who use mostly local resources, have increased while those of the former, who use imported inputs under regimes of public rationing of imports, have decreased.

This setting brought about extremely negative effects: the massive inflows of imported food to meet urban demand has relegated the domestic output of food crops to the subsistence level; lacking alternative sources of a cash income, the smallholders have maintained a certain level of production for export but the rising costs have led to declining outputs in this sector as well; on the other hand, a particular kind of industrialization has developed, mostly in the public sector, heavily dependent on imports, capital intensive, forced to pay high salaries and hence totally inefficient.

A variety of situations can be observed: within the FCFA zone, the currency was heavily overvalued but some restraint was exerted by the fixed exchange rate with the FF. In countries like Ghana (or, in other periods, also Tanzania,

Somalia, etc.), the spiral of overvaluation before 1983 reached such high levels that it provoked a fall in exports and the collapse of economic activities.

In cases where there is a clearly overvalued currency, an appropriate devaluation even of massive proportions as done by Somalia or Ghana is clearly necessary.

However, the doctrinary approach of the SAPs not only goes beyond these common sense conclusions but can even deny them.

The already mentioned example of the Sahelian countries, where a devaluation of the CFA Franc currently seems to be unlikely albeit necessary, is highly instructive. In Senegal, Mali, Niger and Burkina Faso, attempts to cope with the rigidity of the exchange rates by implementing limited import taxes on luxuries and competitive goods and proportioned subsidies to tradeable sector are firmly discouraged. These are, of course, extremely difficult mechanisms to handle, but they are essential when it is not advisable or impossible to resort to generalized devaluation (Delgado 88).

The negative attitude of the SAPs towards these fiscal instruments shows that their goal is the total liberalisation of exchange rates and foreign trade rather than attaining a rate of exchange that can sustain a balanced position on foreign markets and support competitive domestic supply.

This conclusion is corroborated by the major experiences with maxi-devaluations made in the African countries that agreed to SAPs, like Somalia (Mersi 89) and Ghana. In both cases, the devaluation was one of the main factors responsible for initial recovery.

In Ghana, in particular, it acts as a strong stimulus to the sectors with highest potential to increase domestic supply:

- relaunch of cocoa production among smallholders, provision of new opportunities for the unprotected smallholder venture to accede to inputs: the availability of consumer goods and the higher domestic prices are also strong incentives to production, trade and processing of agro-food products;

- on the other hand, much of the foreign trade that passed through the parallel market now finds it advantageous to pass through the official market generating a multitude of positive effects: enhanced security and propensity to invest for the small-scale enterprise, reduction in the margins that characterised the parallel market, highly positive impact on public budgets.

These situations of strong recovery in the short term do not automatically evolve into a new and stable competitive capacity on the part of the emerging and self-sustaining domestic supply potential, because the structural constraints are too strong. In a totally uncontrolled currency market, the pre-existing financial lobbies which are linked mainly to the large commercial sector drain off the limited amounts of foreign currency at any price, and swell the imports of luxuries and consumer goods that compete with local production; devaluation can no longer be stopped and the hypothetical point of convergence between real and official exchange rates (a hypothesis of SAP) move steadily downwards; the emerging enterprises are increasingly unable to obtain the hard currency they need to invest and produce: rising inflationary processes are set off in response to the different on-going phenomena, returning to moments of strong destabilization.

This is what happened in Somalia (Mersi 89) and what it is happening in Ghana. As a result of this perverse process, SAP agreements broke down in Somalia. In Ghana, growth is still strong, even though the described process is already in progress. In both cases (but to a greater extent in Ghana), currency auction systems have been introduced and in Ghana the banks have the authority to manage the parallel exchange market directly (Forex bureaux).

As concluding remarks regarding the devaluation issue in Sub-Saharan Africa, we can say the followings:

- first of all both the need and the validity of devaluation are corroborated by the facts, when the exchange rates are clearly overvalued. This is also in agreement with the

findings of Gyfalson (87) with regard to a case of less drastic devaluation, in the Sahel, leading to the relatively better performances of Mauritania, compared to FCFA countries in the same period;

- the goal of this measure is to support competitive domestic supply (by the small-scale, rural and urban self-sustaining enterprise) within the framework of relatively stable exchange rates, guaranteeing their access to imported inputs and stimulating their production of tradable goods;
- bringing the exchange rates down to more realistic levels can provide this support rapidly, facilitating a more efficient use of reallocable resources within the existing socio-economic setting;
- at the same time, medium-term programs need to be designed with a view to eliminating the structural bottlenecks (infrastructure, training, technology transfer, organizational and institutional strengthening, socio-economic linkages and the related policy implications) that hamper the development of competitive domestic production, operating within a process aimed at full mobilization of the available resources;
- while waiting for the competitive domestic demand to consolidate, measures should be taken to prevent existing rent-seeking groups from cornering the foreign currency market;
- the ways in which this should be done must still be worked out: on the one hand, it is likely that international currency agreements will be required to prevent exchange rates from dropping below periodically established floor levels; on the other hand, it will perhaps be necessary to associate devaluation with certain fiscal instruments designed to induce differentiated levels of real devaluation ($ENER + ERER$) by sector: the success of Korea and other countries in combining protective methods for infant industries with free trading for the more consolidated ones provides useful lessons in this regard (Adelman 78, Fei 80).

3. Liberalization of domestic markets and privatization

An important strategy associated with the expenditure-switching objective of adjustment programs is domestic market prices liberalization in order to remove distortions, increase efficiency and eliminate sectoral discrimination. Liberalization policies are based on the assumption that prices do play a fundamental role in the process of allocation, distribution and growth. This implies a greater reliance on market mechanisms and therefore a greater emphasis on the role of the private sector.

Privatization of the economy is a condition for the liberalization process. This involves an increase in the share of the private sector in production through a shift from public to private investments.

The liberalization of the domestic market, associated with rebalancing of exchange parities in the terms discussed above, is another highly effective measure, albeit only in the short term and of temporary effect. A liberalization where the exchange rate is overvalued as proposed for the Sahel, particularly for Mali and Senegal is, however, harmful in that it exposes the self-sustaining sectors of the economy to competition that is subsidized through the redistributive actions of Governments by the surpluses they themselves produce. This is the first point.

The recipes for liberalization aim at: eliminating the subsidies on consumer prices for food, reducing the taxes on producer prices for exportables, eliminating subsidies on agricultural inputs, reducing public controls on a whole series of basic goods, except certain fundamental items like oil, power, etc.

In parallel, privatization aims, at: reducing the role of the public agencies in the marketing of agricultural goods opening up opportunities for private operators, winding up the public or semi-public enterprises now in charge of distribution of agricultural inputs, winding up the public-owned industries or at least reducing their weight, etc.

Those who know the special characteristics of the

economies of many of the Sub-Saharan countries, realize that these measures cannot fail to encourage domestic competitive supply. In fact, most controls placed on prices and markets by Governments — regardless of whether they are presented as measures to protect the producer, to defend the poorest consumers, to stabilize markets — have consisted almost always in transfers from the self-sustaining sectors (particularly agriculture) to the élites and the groups that support them (Sivini 85 and 87): this was the case of the grain boards in the Sahel until 1985, in Ethiopia even today and in many other countries, where such boards have always bought and sold domestically produced food at low prices, financing the losses by levying taxes on the export output of the smallholders.

Secondly, this is an intrinsic feature of the socio-economic structure largely inherited from colonial administrations; on the other hand, any measure aimed at subsidizing agriculture cannot be anything but an intent without foundation, for the agricultural chain accounts for up to 80% of the GDP and it is the only sector to produce significant surpluses and currency earnings (Caputo 89). Intra-sectoral redistribution within the agricultural chain is a possible strategy but, contrary to what happens in richer countries, inter-sectoral redistribution in favour of the agriculture is not possible.

A policy of getting prices right on domestic markets therefore cannot fail to generate positive effects on the competitive supply sectors by knocking out a series of privileged positions, stimulating domestic exchanges and enabling a more suitable allocation of resources within existing frameworks. Even privatization would have similar effects, stimulating the expression of capacities that have until now been frustrated in both agricultural and non-agricultural production (PROCELOS 87, with regard to food processing bottlenecks), trade (Gagnon 86) and services.

Some anti-doctrinary considerations are, however, necessary in this case:

1. first of all, there is the issue of the short-term and often

ineffectual effects of liberalization when the latter is not understood as a framework designed to enable the implementation of *medium-term programs that can benefit the self-sustaining supply sectors*. The line of reasoning is the same one developed with regard to devaluation and it will not be repeated here (Hugon 88, Zulu and Nsouli, 85). One example should suffice: when the distribution of farm inputs was liberalized in Senegal, none of the private operators felt it was to their advantage to replace the state. It was therefore decided to adopt the institutional cooperatives or projects, distributing subsidized inputs to the producers of cash crops because they are taxed through Government buying prices at a rate that is considerably higher than the level of subsidy received. Gagnon (88) has demonstrated that the entry of private traders in cereals trading in the Sahel does not automatically take place after liberalization but requires major promotional campaigns, and programs for infrastructural and financial support;

2. we have already discussed the *combination between liberalization and devaluation*;
3. the reduction of public involvement is envisaged in a doctrinary manner, and the results are often totally opposite to what was wanted. In Niger, WB required (85) that public involvement in the management of cereals security-stocks be fixed to 80,000 tons, precluding any role focusing on year-by-year regulation of supplies. Respecting the fixed amount of 80,000 tons calls for the purchase and sale of about 30,000 tons annually, with absolutely no reference to the behaviour of domestic markets. The measure is complex and costly, and it often causes market upheavals. All this occurred in the name of "non-intervention" applied in a purely doctrinary manner. Had the regulation of domestic cereals market (applying stockpile ceilings of no more than 80-100,000 tons) been considered, public involvement would still have been reduced to a level in keeping with its true capacities. At the same time, however, it would have been possible to

build up stocks during the good years and draw them down during the poor years, generating a stabilizing effect on prices. Further, Government has a role to play in providing information, training and support to the private sector. All this is precluded under the SAP, which does not entertain any hypothesis aimed at *developing the promotional capabilities of the public sector* but, paradoxically, limit it exclusively at bureaucratic and fiscal functions;

4. finally, liberalization associated with devaluation cannot fail to provoke changes in the terms of exchange on domestic markets; this is indispensable for setting off a development process, but it is very difficult for certain large social groups to sustain it. Compensatory measures are required. In this respect, our position does not precisely coincide with that of UNICEF (Cornia 87). Mainly we diverge with the recent IMF and WB approach (Landell-Mills 88 and WB 88) trying to integrate subsidies and measures to defend the so-called vulnerable groups. We do not believe that it is simply a question of introducing integrative subsidies for the poor. This has already been done in the urban setting, where the low-income classes make up the natural support of the élites. Rather, it is a question of ensuring that the categories whose incomes are cut have alternative opportunities for productive activities, thereby reducing their dependence on the rent-seeking élites. This could be done by relaunching public investments in infrastructure and by upgrading the urban and rural environments: e.g. by promoting and consolidating the non-agricultural family business, stimulating the market for private tertiary services. Without this support, which should be financed by external sources, none of the new balances of domestic terms of exchange will become acceptable. The examples of Ghana and Senegal illustrate two opposite situations in this respect: in Ghana, thanks to a strong expansion of public works and the opening up of new opportunities for small-scale urban enterprises, it was possible to overcome an extremely difficult period of

adjustment. In Senegal, where these measures were not adopted, a small increase in rice prices in 1986 was eliminated within two years because of the pressure by the most affected urban groups and by the elites they supported, in spite of the fact that it had significant positive effects on the domestic cereals chain.

4. Efficient public investment

In recent years, programs reviewing and supporting public investments in productive activities were introduced in SALs. This new trend reflected a critical attitude by WB technicians in relation to IMF's overly monetarist recipes.

In a country like Ghana, such plans mostly concerned the infrastructure sector because of the dramatic degradation that had occurred before 1983. The general effect was that domestic markets were stimulated and employment was increased.

In other countries, like those in the Sahel, the focus was placed on national cereals plans and on programs for expanding exportable cash crops, particularly cotton.

In Senegal, the cereals plan agreed upon in 1986 comprised a plan for irrigated cropping development based on a 5,000 ha per year target along the River Senegal. In Burkina Faso, where the Cereals Plan is being discussed, the focus is on strengthening the extension services using the T&V system.

The above plans particularly the one for Senegal appear to reflect a top-down approach to design and they seem to be unrealistic in practical terms. The development of 5,000 ha of irrigated land annually in this country can only be achieved through a gigantic centralized effort: large, mostly foreign firms applying capital-intensive construction methods; top-down re-structuring of land tenure systems; close organization and supervision of the smallholders farming on irrigated plots; preestablished production plans and techniques on the basis of which stockpiling and processing

plants would be designed. What could be further removed from the promotion of the competitive private entrepreneur who considers the market opportunities before taking decisions regarding production plans and techniques, who consequently stimulates a private supply of services both upstream and downstream: things which are pre-established and mostly public in the plan? In spite of almost 100 years of failure with such ventures, the latter were envisaged in 1986 as a proposal for the rationalization of public investment within the framework of a SAP.

This is what was proposed: on the other hand many examples of dynamic and self-sustaining supply exist in the country, which are not encouraged. Several communities along the river pooled their own savings and remittances from emigrants to invest in pumps and land improvements, creating small irrigated perimeters which they farm in a businesslike manner, responding to their own needs and to the stimuli of the market. In the southern regions, fruit growing is being developed and diversified outside the scope of the orthodox projects, with self-financing. Throughout the country, replicating what happened on a wider scale in Niger (Berg 88), a process of food crop diversification is occurring, involving the massive expansion of the production of *niebe* (a local bean) both as a subsistence and a cash crop. This is happening without any special incentives or support from outside. These initiatives cannot go very far without adequate support. Yet the "rational" reallocation of public investments is directed in the opposite direction and it is the protected firms and the bureaucracy that will benefit while the competitive smallholder enterprises will as usual have to try to manage their way through patronage and passive resistance.

Why does this happen? We believe that there are two main reasons for such a paradox:

1. first, the doctrinary approach requires that an investment project be appraised only in terms of costs and benefits, precluding any reference to other development objectives. This leads to the choice of projects that are designed in

detail in terms of inputs and outputs, techniques, management, etc. For these projects it is easy in theory, not considering the risks deriving from implementation and management conditions, to calculate comparative returns and make choices. This top-down procedure is doomed to failure because the public agency designs an entrepreneurship-based project and ignores the constraints and the characteristics peculiar to the enterprises that will actually be expected to implement it (the smallholder). Cost-benefit analysis and the efficiency criterion are extremely valid selection tools for the individual entrepreneur (either public, cooperative or private, large or small). They cannot be used to evaluate action that should rather be aimed at stimulating a multitude of efficient entrepreneurial activities, most of which are unforeseeable;

2. there is a second, more trivial reason; in order to be acceptable, given the slight enthusiasm that they generate among the Governments involved, the SAPs must necessarily come to compromises, even heavy ones as in Senegal, with the interests of the more powerful local lobbies.

5. Public management improvement

Financial recovery was discussed in the section on austerity packages. Here, the main focus is placed on the aspects relative to the improvement of management and institutional reform.

The SAPs are fairly effective on these levels in terms of qualification and restructuring of the administrative and financial sectors (taxation, national accounts, etc.). In this respect, they supply an important service to the concerned Governments.

They are extremely weak in the field of reforms related to the institutions in charge of development actions: research and extension, cooperatives, land tenure management, support to urban enterprises.

Even in this field, the mistake is similar to the one described in the preceding point: the farming or non-farming enterprise adopted as the reference is totally different from the one that actually exists in Sub-Saharan Africa.

In the agricultural field, the "encadrement" approach prevails, i.e. setting up systems for distributing pre-established technical packages and services that smooth out the panorama of the existing enterprises and neglect whatever there might be in terms of entrepreneurial innovation and self-management of plans and production processes.

The proposal to strengthen the traditional T&V systems, which is supported by practically all the SAPs, is costly and calls for considerable manpower; further, it assumes a substantial passiveness on the part of the farmer. Today we have many examples of lighter and more effective systems of extension that emphasize promotion; some of these systems even involve forms of self-financing by the smallholder of technical assistance in the framework of self-managed projects.

In Senegal, the 1986 reform of the cooperative system, an integral part of the SAP, did not even touch the pyramidal structure that constrained the smallholder farmer initiative, and ignores or even dampens grassroots initiatives and small projects that were flourishing in 1986, on the ruins of the preceding cooperative system. The same is happening in Niger.

In the non-agricultural field, the institutional approach focuses on social forms of support to the "informal" sector, with the assumption that this is the sector of the poor (Ghana), providing assistance to private small or medium-sized enterprise.

3. A REVIEW OF SAPs COMMENTS

Concluding this analysis on SAPs in Sub-Saharan Africa, a few comments may help in synthesizing the above-mentioned considerations.

1. With regard to demand-side measures:

The austerity packages are effective maybe only in improving the management of public budgets, by increasing tax inflows, attaining a somewhat better use of available resources and a somewhat more careful monitoring of the basic macro-economic indicators. Further, the reduction in public employment wages has a beneficial redistribution effect.

In their more comprehensive objective of reducing aggregate demand to the "levels" of supply, they have been wrong, unrealistic and unsuccessful.

No adjustment-cum-growth policy seems to work in Sub-Saharan Africa, not even in the short term, without an expansion in the domestic demand set off by an inflow of external resources.

On the other hand, very few examples of adjustment policies without growth have been successful. By provoking recession, they have in fact set off acute processes of destabilization.

2. With regard to supply-side measures:

On the whole, the SAP envisage a *passive* form of intervention, aimed at removing the obstacles to a more efficient allocation of resources. It seems however indispensable, in Sub-Saharan Africa, to combine such an approach with *active* support aimed at providing the competitive, self-sustaining domestic supply sectors with the technical, infrastructural, organizational and financial means that only the inefficient protected sectors currently have access to.

Devaluation, liberalization of domestic markets, and privatization seem to be indispensable *passive* measures for the majority of the countries of Sub-Saharan Africa because — under these circumstances — they are able to create a favourable context for the competitive and self-sustaining enterprises.

However, if they are not associated with targetted medium-term support to the endogenous rural and urban sectors these measures are ineffective and in some cases they are harmful.

Devaluation must be associated with measures designed to prevent or limit attempts by the rent-seeking groups to corner the foreign currency supply and it must be supported by international cooperation agreements. Where this is not the case, the devaluation process becomes inexorable, leading to economic collapse.

Privatization must imply a redefinition of public administration in the planning, promotion and regulation of economic processes. It cannot be understood as a simple Government withdrawal.

The reorientation of public investment must follow entirely different criteria from those actually envisaged by SAPs. Public investment must be directed towards favouring the greater and more efficient mobilization of the resources of the self-sustaining sector.

4. STRATEGIC FRAMEWORK AND PERSPECTIVES FOR THE 1990s

Introduction

From what we have said so far, it is seen that our criticism of the SAPs not only is based on the kind of results they have attained, but also postulates a strategic reference framework that reflects some basic achievements regarding the structural crisis of the LDCs of Sub-Saharan Africa.

We have said it is true essentially that these programs should be based on an expansion of the domestic demand and *active* not only *passive* support to supply. This conclusion arises from a non-dogmatic integration of different instruments of economic theory that we feel are the most appropriate for this particular region.

It is necessary to decide what instruments should be applied towards what objectives; the comments made in the previous pages allow to define a clear framework of priorities.

The explicit statement of references and strategic objectives is indeed essential to discuss alternative economic policies and issues.

In this paper, we have outlined some of the analytical elements and priority objectives on which in-depth research and action should be based on in order to get past what we would define as the "instructive SAP parenthesis".

We believe, in fact, that this has been a sort of "parenthesis": between the collapse of development myths in the 1960s and today's indispensable return to research and debate on the options for development at regional level.

This parenthesis is highly instructive because, for the first time — and credit for this must be given to the IMF — some leading international financial agencies defined their

recipes and proposals in explicit terms. They did not hide behind individual projects, the responsibility for which falls on everyone and nobody; rather, they drew up contractual policy packages, some of them coherent, and this outlined a new way to approach technical and economic cooperation. Today, this method needs to be turned around — abandoning its authoritarian and theoretically weak content, based on summary generalizations — with full awareness that DCs and LDCs have common interests and responsibility in the development of Sub-Saharan Africa.

African LDCs structural crisis

The structural crisis in Sub-Saharan Africa is determined by two related phenomena:

1. the drainage of resources, both directly and indirectly, by the rest of the world, where the changes and adjustments have always resulted in a relative loss for this regions, since its entrance in the world economy;
2. a domestic socio-economic structure, that is on the one hand the product of history and tradition, and on the other hand it has been consolidated during the colonial period.

Any strategic proposal must take account of both of the above phenomena, seeking ways to reverse their present trends.

The first element implies the need not only to maintain and increase the positive flows of resources towards the region as a due partial compensation (something that has not occurred during the '80s), but also to overturn the existing mechanisms that determine the economic and political marginalization of the area. The developed countries, as they did with regard to the Far East after World War II, must realize the fundamental importance of creating stable perspectives for equitable development in Sub-Saharan Africa and collaborate with the concerned countries to develop programs characterised by strong common effort.

The second element is considerably more complicated to analyse. Many authors have tried to identify a social matrix applicable to many LDCs of the region (Grellet 86, Giri 86, Sivini 84 and 87, Caputo 85 and 89). A rudimentary outline of a social matrix is presented below as the basis for suggesting some priorities for research and action:

1. two main groups can be found with some variations from country to country: on one hand, a small group of rent seeking notables and, on the other, a vast peasant farmers' category which the former subjects to systematic exactions or tribute. The detailed features of this broad generalization vary from country to country, involving a multitude of intermediate categories:
2. through their exactions from the smallholders and their control of concessional external funds, the notables corner most of the country's foreign exchange and use them: (i) to place subsidised goods on the domestic markets, depressing prices; (ii) to establish inefficient but protected industries in order to occupy realms which produce value-added that would otherwise escape their control; (iii) to expand their patronage systems; (iv) to purchase luxury goods and carry out prestige works. They extend their exactions to the small-scale urban enterprise, by forcing the latter to sell its goods and services at minimal prices to compete with subsidised imports.

The above outline is not intended as a framework for analysis but simply to suggest that research should pay more attention to the identification of the redistributive mechanisms in Sub-Saharan Africa societies. This will help to understand why significant small-scale urban enterprises, leaving aside simplistic interpretations.

The outlined system evolved within a context of unlimited resources (land) that allowed opportunities for rent-seeking to grow at least proportionally to the growth of population. Now that such conditions no longer exist, the system is gradually entering a crisis. It is now collapsing due to the recent contemporary restriction of external resources. By generating disaggregations within the existing social

blocks, this collapse is creating favourable settings for the establishment of new balances but this will not occur unless appropriate objectives are identified.

Let us return to the economic policy instruments mentioned above: expansion of domestic demand initiated by positive flows of external resources plus both *passive* and *active* support to domestic supply: what objectives should be pursued to ensure that these instruments modify the distribution system, which is at the origin of the crisis, rather than simply allow it to survive?

Some priority objectives

The focal point of policies aimed at providing support to supply, pulled by an expansion of demand, has to be the self-sustaining enterprise, to the detriment of the protected enterprise:

1. the self-sustaining enterprise is first of all the *smallholder family farm*, a sector that currently absorbs 80% of the active population. This is where it is necessary to kick off the processes of accumulation that will create the conditions in terms both of resources and markets for the efficient development of the other sectors. The role of agricultural development as the driving force of overall development within the LDCs has been amply demonstrated by many authors over the past fifteen years. Within the context of smallholder production, the emphasis must be placed on the vital role of food production (Mellor 87, Caputo 89) which absorbs the major part of the resources of the farmer family, and which has a stable and large opportunity both for import substitution on the domestic markets and for exports to subregional markets.

The stimulation of processes of accumulation in the small family farm implies a series of both *passive* and *active* support measures that have already been discussed. Above

all, we want to stress that this calls for a process that promotes both individual and associated enterprise, by creating favourable external conditions and strengthening the capacity for full mobilization of internal resources.

2. Then there is *industry*, which must grow out of the evolution of the more dynamic parts of the so-called "informal" or "semi-formal" sector, at the expense of the protected sector. The former, which is considered to be of lower rank compared to the Muridi oil mills in Senegal or the Eyadema cement plants in Togo, is in reality the only truly modern part of the industrial sectors of many African LDCs. This sector is indeed the only one that finances itself and adopts efficient strategies for the allocation of resources under prevailing conditions. Many programs that support the self-organization of this sector have demonstrated its excellent capacity to respond (Mali, Togo).
3. *Trade and services* should also be the object of targetted support programs aimed at strengthening the self-sustaining enterprise at the expense of the protected ones.
4. By strengthening the efficient sectors and creating a favourable environment for their development, a new capacity for *international competition* on the part of the African economies may develop and it should cover all fields. However, the experiences of countries such as Korea and Taiwan show that it is not possible to do this without strong dynamisation of the domestic markets. In this respect there is still a need for selective protection measures, at least initially.
5. Finally, it is necessary to address the complex issue of *institutional reform* and the already mentioned need for *redefining the role of Government*. Today, favourable conditions for this have been generated by the impossibility of perpetuating the old distributive model and by the emergence of a new urban intellectual stratum

that is economically intolerant and culturally dishomogeneous vis-à-vis the traditional notables group. Targetted programs should be implemented with the aim of making the institutions more efficient and sensitive, and of supporting a change in the role of Governments, from that of managers and guardians of an economy based on rent-seeking to that of promoting and organizing an economy based on the enterprise.

Which role international cooperation could play?

In conclusion, it is possible to identify a new role for international cooperation with Africa for the '90s.

1. First of all, it is necessary working in increasingly close collaboration with the African institutions to develop instruments for understanding the on-going socio-economic processes and for identifying realistic strategic frameworks and the related policy packages. In this respect the role of *research* in cooperation should be considerably more important than it has been the case in the past.
2. *Permanent venues* should be created for sub-regional level meetings between donor and recipient countries, between the experts and institutions from both sides. The existing agencies like CILSS, IGADD, SADC, should be used and reinforced for this purpose. The different partners would thus be provided with the opportunity to address the issues under study in a coordinated manner, confronting their ideas and reaching agreement on broad lines of common action. The CILSS and the Club du Sahel have already done a great deal along these lines. However, to strengthen the role and the prestige of such organizations, it should be stressed that both bilateral and multilateral flows of funds have to be allocated within the policy frameworks discussed and agreed to at sub-regional level, developing these guidelines in detail at the national level rather than ignoring or overturning them.

3. The international financial community should decide — without wasting more time — on a significant and immediate *increase in concessional flows* towards Sub-Saharan Africa. This above all — albeit not solely — involves wiping out a good deal of the external debt of African LDCs. The total debt of Africa towards the international community is as important as a candy bag for each of us, but it has become a hangman's noose for Africa and it has been increasing under SAPs; under the SAPs, the total indebtedness of Senegal reached 80% of the GDP.
4. These decisions should not be taken on the basis of humanitarian rhetoric but rather in the context of *framework of agreements* for technical and economic cooperation based on policy packages agreed to and guaranteed by reciprocally binding contracts between donors and recipients. If one or more African Governments are in agreement on the need for a rigorous application of appropriate policies for structural renewal, they should receive the resources needed to ensure positive results over a given period of time. If significant results have been attained at the end of that period, the donors should be committed to providing the resources for the succeeding period, operating in a medium to long-term perspective.
5. IMF and WB could be drawn in this direction but — by their very nature and function — they cannot be the only promoters. The United Nations, abandoning its traditional timidity, could play an important role. Above all, however, the actors who are best placed to coordinate their efforts along this new line are the major bilateral aid agencies which are operating actively in Africa: the EEC, reuniting the contributions of the bilateral aid agencies of member countries (particularly the Netherlands, France, Germany, Italy, etc.), could play an important role under the condition that its coordinating function be strengthened and made less bureaucratic and that the national agencies

talk more to each other, setting aside their reciprocal haughtiness. Besides the EEC, Canada, the United States and the Scandinavian countries are extremely sensitive to the innovative perspectives which are being discussed, albeit with different accents and interests that could be smoothed out through closer consultation. Finally, the USSR is anxious to apply new approaches in its contribution to international cooperation with Africa.

5. TWO CASE STUDIES: GHANA AND SENEGAL

Why these two countries

Many African countries are at the moment under structural adjustment "treatment" and of course every intervention strategy has a particular history, interesting to be analyzed.

The reasons why we have decided to choose Ghana and Senegal are many. It is well known that Ghana is considered as the "laboratory" by the IMF and the WB and besides, it has one of the longest history of structural adjustment in Africa. The implementation of SAPs began in 1983 and it is therefore already possible to assess some of their effects. Moreover, Ghana is one of the few countries in which SAPs implementation seems to have really reached positive results.

With regard to Senegal, our interest is to analyze a typical Sahelian type of structural adjustment policy. This model seems to be quite different from Ghana's, above all because it induced a less dramatic shock in the economic system. However, its mildness is fully compensated by its ineffectiveness; as a matter of fact, its main feature seems to be the implementation of contradictory measures inducing changes in the economic system, corrected after a while by changes in the opposite direction. This model seems to be quite representative of the Sub-Saharan SAPs.

The two case studies therefore represent quite well the universe of structural adjustment policies in Africa and their analysis should allow to test the effectiveness of SAPs in Sub-Saharan Africa.

Ghana: the Economic Recovery Program

The policy framework

At the time of independence in 1957, Ghana was rightly regarded as one of the strongest economies in Africa and certainly enjoyed the highest per capita income in West Africa.

During the first Government, lead by Nkrumah, the main economic objective became industrialization directed and funded mainly by the State. The industrialization effort was mainly import-substitution oriented and little attempt was made to evolve a complementary export strategy or to expand the traditional export base (Killick, 1978). The program was funded largely by Government domestic borrowing and *de facto* taxation of cocoa farmers' earnings, by keeping the difference between the price paid on the international markets and the much lower producer price.

However, by mid-1971, when the cocoa boom was over, the country faced the prospect of large deficits on the balance of payments. Between 1973 and 1983 the economy took a sharp downturn and cocoa, mineral and timber production began to decline. The dramatic contraction in the main domestic production caused a decline in per capita GDP by more than 4% a year, in industrial output by 7% a year, in per capita food production by nearly 6% a year and in foreign trade by 6-8% a year. By contrast, prices were on the increase and the rate of increase of the index of consumer prices rose from 18% in 1974 to 116% in 1982/83 (Bawmia, 1988). By 1983 GDP in constant price terms fell to about 90% of its 1970 level, while population was 40% higher. The fall in export caused a deficit increase in the current account from Us \$ 2.7 millions in 1976 to Us \$ 294 millions in 1983. Successive Governments responded to deficit with import controls while the population response was the proliferation of black market activities. By mid-1983 goods were almost unobtainable at controlled prices, while on the black market

they were traded at prices which were many times higher than the official ones.

The primary cause of the economic malaise was definitely the adoption of wrong policies inducing distortions in the economic system and boosting rent-seeking behaviour, smuggling, cheating and various other non-productive activities.

However, the negative effects of poor policies were undoubtedly magnified by the combined effects of certain adverse external circumstances. As a matter of fact, in 1982 and 1983 Ghana was hit by the worst drought in living memory: in 1983 employment and food availability worsened due to the unexpected return of about one million workers from Nigeria and finally, the country economy was hit by another steep fall in cocoa prices.

In 1983 the Government launched a four year *Economic Recovery Program* (ERP) to redress the external imbalances and therefore switching resources into tradeable good production, but also, given the depressed level of provision of key non-tradeable goods and services, protecting output in these areas from serious contractions.

At the core of the adjustment strategy was the need to effect a substantial improvement in the balance of payments, so as to provide for essential imports through a strong increase in exports (Chaud and van Til, 1988). This required a drastic depreciation of the exchange rate. To sustain the devaluation and to remove the large number of distortions, that compromised the efficiency of the economy, appropriate monetary, fiscal and income policies would have to be implemented.

The implemented program was based on a traditional structural adjustment policy with one exception, which is *a deliberate and immediate increase in import capacity* (Green, 1987).

The main elements of the program are:

1. *exchange rate policy* started with a shock treatment in 1983

when the Cedi was devalued from 2.80 to 30 Cedis per Us dollar, followed by a series of interventions which brought the nominal parity of the Cedi to 90 Cedis per Us dollar in January 1986. The devaluation process went on with the introduction of a weekly foreign exchange auction for certain specified classes of transactions in September 1986. At the end of 1987, the access to this market for foreign exchange was widened and the exchange rate of the Cedi depreciated from its pre-auction level to Cedis 185 Us dollar by the end of 1987 and to Cedis 258 per Us dollar by the beginning of 1989.

Besides, to improve the operation of the exchange system, established since February 1988, commercial banks and other dealers were authorized to engage in the purchase and sale of foreign exchange through specific foreign exchange bureaux. A large number of such bureaux have already been licensed and have started to operate. The objective of monetary authorities is to induce the rapid convergence of the exchange rate of the auction market and the rates quoted by foreign exchange bureaux. However, the differential was still of about Cedis 100 per Us dollar, by the beginning of 1989.

2. *Trade Policy*: the liberalization of the trade system was completed in February 1988 when, except for very few items, all the remaining goods subject to the Special Import License Scheme were moved to the list of goods eligible for funding through the auction.

Domestic production should be increasingly protected by the Government over the next few years and greater incentives for efficient exports and import substitutes should be offered. This goal is to be achieved by equalizing the sales tax rate on domestic and imported products, further reducing the highest import duties and simplifying the rate structure.

3. *Fiscal policy*: the ERP has been emphasizing a package of measures including a simplification and rationalization of the tax system, a restructuring of expenditure to favour

development and rehabilitation activities and a general increase and widening of differentials in civil-service wage scales.

The main objectives of the tax reform are the increase in GDP revenue and the promotion of efficiency and equity. The rationalization of public expenditures has been a key element of the Government's reform and mainly consists in raising salaries in the civil service, reducing staff levels, investing in order to rehabilitate the country's economic and social infrastructures and to provide support to private sector activities.

4. *State enterprise reform*: SOEs performance has been characterized by low productivity and large financial losses, placing a heavy managerial and financial burden on the Government. Therefore the Government has undertaken a reform of the SOEs in order to improve efficiency and profitability, increase managerial autonomy and mobilize additional resources. 32 enterprises on the total amount of SOEs have been selected for divestiture, others will be converted into joint ventures with the private sector and finally a few will be completely liquidated. Corporate plans and performance agreements are the principal means by which management and financial performance of the state enterprises, remaining in the Government's portfolio, will be monitored and improved.

5. *Agricultural policies*: are aimed at encouraging efficient production and distribution by removing distortions and providing increased incentives in the areas of cocoa, other cash crops, fertilizers, irrigation and timber.

To encourage the production and export of *cocoa*, the Government raised the producer prices from 25% of the FOB export price to a target of 55% in 1989/90.

Measures have also been adopted to improve the efficiency of the marketing and distribution system. In this regard, the Cocoa Board's operating costs have to be reduced substantially. To achieve this objective, the Board reduced

its staff of 102.000 employees by about 17.000 employees in 1988.

The rehabilitation of basic services and the provision of inputs are the main strategies regarding *food crops*. The objective is to phase out the subsidies on fertilizers and to foster the establishment of a private fertilizer marketing system.

6. *Interest rates*: during 1983, a flexible interest rate policy was adopted with the commitment to achieving positive real interest rates. In line with this objective, the interest rate was raised up to 26% in 1988. This increase was also meant to attract savings to the banking system.
7. Since 1985 *price controls* were limited to only 8 items (imported rice, sugar, baby food, cement, textiles, drugs, matches and soap).

The basic macroeconomic objectives of the program for 1988-91 are the following (IMF, 1988):

- to achieve an average annual rate of growth of real GDP of at least 5%;
- to reduce the rate of inflation from 34% in 1987 to 5% in 1991;
- to generate substantial overall balance of payments surplus.

The macroeconomic performance

Ghana's program of structural adjustment is on-going and therefore it is too early to draw any final conclusions. However, with the analysis of the main macroeconomic indicators, we would like to attempt an assessment of the adjustment experience until now, in order to evaluate the immediate consequences of this program and to emphasize its main problems. Therefore, let us take into account the macroeconomic framework of Ghana from 1982 until 1988 (when data are available).

First, if we consider GDP *growth* we can see that GDP at current prices is raised from 72627 millions of Cedis in 1981 to 746000 in 1987, while GDP at 1975 prices is raised from 5344 million of Cedis to 5976. Taking into account the *growth rates*, the GDP registered a negative rate in 1981 (3.5%), 1982 (- 6.9%) and 1983 (- 4.6%) and a positive rate of growth of 8.6% in 1984, decreasing to 4.8% in 1987.

Between 1976 and 1983, *per capita national income* registered a negative rate of growth, while it started to register a positive growth rate since 1984. However, we want to emphasize that its 1987 level (412 C) was still lower than the 1981 level (435 C).

If we consider the GDP *by sector* in percentage of nominal GDP, we can see that, under the ERP, the agricultural share grew from 49.2% in 1984 to 50.6% in 1987; the industrial share from 10.6% to 17.2% in 1986 and then it decreased to 15.9% in 1987; finally, the service share decreased from 40.3% in 1984 to 32.9% in 1987.

In agriculture, the increase of production is mainly in cocoa (from 4.1% in 1984 to 8.9% in 1987) and in timber sector (from 3.4% to 4.6%); while in industry, manufacturing sector registers the best performance (from 6.4% to 9.9%).

Taking *inflation* into account, in 1983 the change in the consumer price index was 123%, whereas in the previous year it had been only 22% and in 1984 it was 40%. We must add that in 1985 it fell down to 10% but then, in 1986, it raised at 25% and, finally, in 1987 at 40%.

With regard to the *external sector*, the economy's import capacity was undoubtedly successful during ERP. As a matter of fact *imports*, which reached a low point of \$ 540 millions in 1983, rose from \$ 670 millions in 1984, to \$ 726 millions in 1985 and, finally, to \$ 1090 millions in 1988.

On the other side, *exports* rose from \$ 326 millions in 1983 to \$ 840 millions in 1988; the increase was mainly due to growing cocoa exports (from \$ 268 millions in 1983 to \$ 422 millions in December 1988), to timber exports (from \$ 14 millions in 1983 to \$ 117 millions in 1988) and finally to

non-traditional exports (from \$ 1 million in 1983 to \$ 18 million in 1988).

It is important to emphasize that the positive BOP registered since 1987 seems to have been favoured by the new sympathetic attitude of the international community towards Ghana. As a matter of fact, if we look at *capital inflows* we can see a huge increase of long-term loans from \$ 84 millions in 1983 to \$ 307 millions in 1987. This is also shown by the *debt* increase from \$ 2028 millions in 1983 to \$ 3089 millions in 1987, \$ 834.2 millions of which are attributable to IMF financing.

Finally, we want to take into account *budgetary performance* and the Government recovery from a deficit of Cedis 4937 millions in 1983 to a surplus of Cedis 299 millions in 1986 and Cedis 4059 millions in 1987. The revenue recovery is attributable to the large nominal devaluation, the increased income tax collections from enhanced civil-service wages and the oil tax.

On the expenditure side of the budget, the situation remains far more problematic because the share of current expenditures is still very high (75%) and a large part of this has been accounted for higher wages to civil servants and for interest payments. Thus the objective of significantly restructuring expenditure in favour of more productive and socially-useful expenditures remains largely unfulfilled.

The reasons for success

Ghana structural adjustment program is one of the longest example of this kind of intervention and it is surely one of the most successful. After a six-year period of implementation, however, Ghana's results show the success of a non-traditional strategy of stabilization and adjustment. The main characteristic of Ghana's programme is in fact the expansionist tendency, based on a significant increase in the domestic demand for goods and services, which is a condition excluded by the basic SAP theoretical view.

Ghana implemented such *expansionist strategy of adjustment, with the support of the international community*. As a matter of fact, if we take into account global data on capital inflows, we can see a huge increase from about \$ 200 million in 1983 to about \$ 420 millions in 1988. The increase of domestic demand — within the framework of strong devaluation, liberalization and public efficiency measures — has enhanced the domestic supply.

The analysis of the correlation coefficients (see table 1) gives some interesting insights on the high correlation between GDP and BOP (0.74) and between the latter and BCAP (0.69), confirming the main role of the international assistance in the recovery of Ghana.

The increase in domestic demand determined a strong *increase in imports*. The annual growth rate in constant prices of imports of goods and services is raised from a negative rate of - 10.4% in 1983 to a positive rate of 63.5% in 1987. Exports also grew, but registered a lower increase. If we consider the share of imports and exports on nominal GDP, we note that the export share is raised from 7.5% to 20.6%, while the import one from 7.7% to 23.7%.

Such an import boom is partially due to the particular situation characterizing the country before starting the adjustment program: Ghana suffered a dramatic shortage of consumer goods and therefore the availability of resources and the liberalization of imports have induced a relevant increase of imports in consumer goods. Moreover, this tendency has been enhanced by a complete liberalization of imports, instead of a selective reduction of protectionism in order to regulate the demand for foreign goods.

The short-term effect of the "demand driven" growth strategy has been an *increase in the gross domestic product*, with a rate of growth that in 1987 was approximately 5%. Consequently, it is interesting to analyse how the different *expenditure categories* have grown. Firstly, *consumption* increases, at constant values, from Cedis 4,433 millions in 1983 to Cedis 5,516 millions in 1987, with an annual growth rate of 0.9% in 1983 and 6.7% in 1987. Besides, if we

disaggregate the total consumption in private and public expenditures, we see a stronger increase in the public share (from 5.9% of nominal GDP in 1983 to 10.6% in 1987), while the private share decreased from 90.8% to 81.6%.

Looking at *investment* expenditures, there is a relevant increase from a negative annual growth rate (-0.1% in 1983) to a positive growth rate of 21.5% in 1987 and the investment share in percentage nominal GDP is raised from 3.7% to 10.8% .

According to Green (1987), import recovery through external resource transfers would have allowed increased output almost independent of particular political choices. Such point of view seems too extreme, considering that in the previous state-controlled economy any injection on external resources would have been absorbed by the state-subsidized bodies and groups.

The question is the *sustainability of a positive rate of growth* and of course this is very much dependent on the adopted policies. From this point of view the emphasis on investment expenditure is positive because it allowed the rehabilitation of some of the most severely damaged parts of the economy, in particular infrastructures. With the support of the World Bank, infrastructure rehabilitation projects were undertaken in the transport, power, communications and water supply sectors. In the 1970s, the deterioration of infrastructures was in fact an important constraint on economic growth and therefore their rehabilitation represents a "conditio sine qua non" for the success of the economy recovery.

In order to assess the sustainability of GDP growth, it will be necessary to look at the GDP *data by sector* as well. If some production gains can certainly be attributed to the rise in cocoa and timber production, the non-agricultural sectors of the economy have also been growing. In fact, the correlation coefficients show a high positive degree in the relationship between GDP and GDPNA (not agricultural GDP) (0.94) and a high negative degree between GDPA (agricultural GDP) and GDPNA (-0.68).

The increase in cocoa production is due to good weather conditions and to the increase in producer prices, which strongly reduced smuggling and stimulated new planting.

The increase in timber production is mainly due to the greater availability of foreign exchange to import inputs, to the increase in the rate of exploitation of forest, and to infrastructural improvements, as in the communication system.

Manufacturing benefits from the removal of distortion such as scarcity of foreign exchange, price controls and restrictions on imports.

Devaluation had the biggest impact on economic change together with the increased capital inflows and has ensured that such additional resources be available to a wide range of national enterprises and not only to the few protected groups benefitting from the previous over-subsidized foreign exchange. Allowing more realistic relative prices, devaluation promoted imports and provided incentives for exports. In the case of Ghana, it has been a basic condition for the short-term recovery.

Two issues however should be raised considering such positive impact: (i) devaluation would have had a very reduced effect without being combined with a strong expansion in the domestic demand (see the import boom which has sustained the short-term recovery); (ii) in a medium-term perspective, combined only with the increase in domestic demand and liberalization, devaluation seemed unable to ensure the continuity in the growth process and generated new problems, which look absolutely similar to the old ones.

The fragility of the recovery

Based on the above discussion, we can identify two main reasons explaining the short-term recovery of Ghana: first, the increased availability of resources due to a raise in external aid, and secondly, a devaluation policy, addressing the available resources towards the potentially more

competitive sectors in the economy. With regards to policies adopted to enhance the effects of devaluation and the increased availability of resources, the effects of structural adjustment are more unclear, except for some measures aimed at improving public budget management.

In Ghana the adjustment policies seem to have been successful in provoking an expansionist shock in a seriously degenerate economic system. However, the induced growth showed many structural fragilities, because Ghana did not implement selective policies both on the demand and on the supply side of the economy, remaining faithful to the Fund's philosophy of pure liberalization and therefore addressing the available resources towards unplanned directions, instead of looking for new alternative strategies.

The lack of a strategical framework, identifying the potential subjects of the new economic system (e.g. small and medium entrepreneurs in rural and urban areas) and the sectoral priorities will likely generate economic patterns and behaviours similar to the ones before the crisis.

The problem is whether Ghana can set up significant structural changes, before the external flows of resources end up:

- we can observe first that Ghana's debt service obligations have recently been mounting ominously (to 20-25% of exports) and in 1987 the debt ratio was about 45%;
- most of the external aid has been transformed in imports. According to Green (1987), a substantial share of new imports, after trade barriers were lowered, took the form of consumer goods instead of capital goods or intermediates. On the one hand, this can be understood considering the shortage of goods on the official market, before adjustment. On the other hand, the implementation of un-selective liberalization policies and the introduction of uncontrolled forex auction systems pushed imports towards consumer goods, through the mechanism outlined below;
- devaluation, giving a realistic value to the official rate, brought a large share of external transactions from the

parallel markets to the official one, but the auction market, immediately indicated a tendency on the part of the elites to hoard money and to speculate on the exchange rate by the forex bureaux due to the scarce currency supply. This induces a continuous devaluation on the market and increasing difficulties to accede to foreign exchange by the small entrepreneurs;

- looking at the supply side of the economy, Ghana is still basing its economy mainly on cocoa and timber. With respect to cocoa, the main worry is that the large increase in production, which Ghana seems potentially able to achieve, could not be trivial in terms of total world supply; the world demand is in fact quite stable and price-inelastic and several other countries are trying to expand production. Further expansion in timber logging does not seem advisable at all;
- the emphasis on export diversification is an important aspect of the development plans, but, with the right foreign prices, exports are likely to fall. In addition, the elimination of distortions and the liberalization of the economy will not spontaneously generate the best allocation of the available resources. In the case of Ghana, we can see that this is true, without any active measures to sustain the supply's structural changes;
- development plans emphasized small-scale industry as an important element in the growth strategy. But if we look at the credit policy, we see a collapse of credit supply due to the increase of interest rates and to the existence of credit ceilings. The available credit is rationed at the advantage of the Government and the most protected groups, excluding small enterprises. No specific programs are implemented for enhancing the financial capacity of the latter (both on the saving and credit side). Therefore the weakness of the financial system remains a strong constraining factor, notwithstanding the increase in domestic savings which amounted to 7.9% of GDP in 1986;
- the same is true for other measures necessary for enabling

the growth of small enterprises both at rural and urban level: research, training, institutional set up for promoting new cooperation processes, technical services, specific infrastructures.

The lack of policies to sustain supply's structural changes is hampering the take-off of new entrepreneurial subjects. The vacancy left by the reduction in the economic role of the State will probably be filled up by the same rent-seeking élites, who were responsible for the country's previous crisis. The State has rightly reduced its role in the economic system, but it has not assumed a new role in planning, coordination and promotion of private economic activities, which would be needed in order to favour synergies, diffuse informations, supply services and induce innovations.

If in principle it is stated that in Ghana economic growth will depend largely upon a dynamic response of the private sector, practically only small projects are implemented in order to allow the private intervention in the economic system. The general philosophy behind structural adjustment remains well synthetized by the IMF slogan "getting prices right".

Table 1. *Coefficients of Correlation, Ghana 1982-87*

GDP,	BOP	0.74
GDP,	GDPNA	0.94
GDP,	EXR	0.87
GDPA,	GDPNA	- 0.68
GDPNA,	EXR	0.73
PDEF,	EXR	0.62
BOP,	BCAP	0.96

Senegal: Medium-Long Term Economic & Financial Adjustment

The policy framework

Since 1979, Senegal's economic history can be summed up as a long series of negotiations with the IMF, World Bank, other aid donors and foreign creditors. As a matter of fact, in the late '70s Senegal was hit by drought, while international groundnut and phosphate prices were decreasing. Besides, the combination of declining export earnings and increasing outlays on imports caused a rapid escalation in external borrowing and, at the same time, the country's foreign exchange reserves dropped considerably.

At the beginning, the Government of Senegal judged the economic troubles of the late '70s as transitory and reversible, so that most interventions were labelled "exceptional" or "emergency" assistance. However the IMF and the World Bank argued that Senegal's economic problems were cumulative and structural and therefore required changes in policies. Hence, stand-by agreements were reached with the IMF, while the Bank granted a structural adjustment loan on the basis of a five-year economic and financial recovery program drawn up by the Government in late 1979 (Lewis, 1987).

In 1983, the IMF and the Bank canceled the second tranche of their loans because of the very poor results obtained by the country. This further crisis seems, however, to have been the catalyst which finally convinced the Government that a structural reform could not be delayed longer, and a new medium and long term adjustment program, to run from 1985 to 1992, was needed. This maintained the commitment of previous programs to the reduction of Government subsidies, increased taxation, tighter monetary policy and controls on public sector employment and wages. But it also went further in anticipating a substantial reduction in state intervention in the economy and a progressive abolition of protectionist trade policies.

The new program appears to have convinced aid donors and creditors about the seriousness of the Government's intent and therefore the IMF and World Bank accepted to come back to Senegal and to financially assist the reforms.

Two main issues can be identified in the 1985-92 *medium term program*:

1. the Government's decision to decrease its involvement in the economic system and to favour private investments in the place left by the State;
2. a more efficient management of public resources thanks to a rationalization and a reform of public sector.

In the agricultural sector the *New Agricultural Policy* has been implemented with the objective of favouring the recovery of production and the increase in productivity. The main component of this policy is the emphasis on the transfer of responsibility to the farmer (Republic of Senegal, 1987) through the following measures:

1. *the reform of the groundnut sector*, increasing the producer prices, deregulating the distribution and marketing of inputs and progressively eliminating seed and fertilizer subsidies;
2. *the grain plan* in order to reach 80% food self-sufficiency by the year 2000, to achieve regional equilibrium, in particular through the development of the Vallée du Fleuve and the Casamance Valley and to increase the rural sector income through a price policy in favour of local products and supports to commercialization and processing on local markets;
3. *the diversification measures* in order to maximize the benefits resulting from Senegal's comparative advantages in several areas (corn and other grains, fruits and vegetables, cotton);
4. *supplemental support measures*, particularly in the following areas:
 - *agricultural credit*, allocated only to economically viable activities and strongly linked with full and prompt reimbursement capability of the borrowed amounts;

- the progressive reduction and final abolition of *subsidies for inputs* and the gradual promotion of private firms in marketing and production of seeds;
- *institutional reforms*, such as the creation of multifunctional and multisectoral rural cooperatives, instead of the previous bureaucratic cooperative system.

In the industrial sector with the *New Industrial Policy*, the local industry should have been progressively exposed to competition by abolishing quantitative restrictions and replacing them by reduced and coherent tariff protection. Besides, the importation of all products has been regulated according to a new tariff system, characterized by a higher rate in proportion to the degree of processing of the product.

The Government should improve the institutional environment by eliminating administrative obstacles, particularly reforming the Investment and the Labour Code. Besides, the export promotion should be improved, particularly by establishing an export premium based on the industrial value added in order to make the enterprises more competitive and more export-oriented.

In the *public sector*, the Government started a reform of the *state-owned enterprises*. Among the 180 SOEs, 34 were choosed to be privatized, while the others should have been either closed down or rehabilitated (Africa Relance, 1988).

With regards to *public finance*, on the *receipt side*, the reforms mainly consist in the Custom Reform, aimed at reducing import duties, and in the Tax Reform aimed at reducing the tax burden by lowering the tax rate, widening the assessment base and improving tax controls.

On the *expenditure side*, the measure concerns mainly public employment, wage policy and public investments in order to contain expenditures in the context of the adjustment effort (World Bank, 1987).

The objectives to reach with the implementation of these policies in 1991 are set up as follows (IMPF, 1988):

1. a GDP rate of growth of 3.8% per year;
2. an inflation rate of 2.3%;

3. a deficit of the balance of payments not greater than 6.5% of GDP.

The macroeconomic performance

The analysis of the recent evolution of the main macroeconomic indicators is the basis for assessing the first results of structural adjustment policies implemented in Senegal since 1985.

Looking at the GDP rate of growth, a certain recovery in the economy must be recorded. After a negative rate of growth of -0.5% in 1984, mainly due to drought, the average rate of growth reached 4.2% in 1985-87, when the rate of population growth has been about 3% per year.

On the *inflation* side, the GDP deflator decreased from 11.4% in 1984/85 to 5.0% in 1986/87.

With regard to the *external sector*, the trade deficit decreased from 17.3% of GDP in 1983/84 to 11.0% in 1986/87. Prices for both *exports* and *imports* rose markedly in 1984, registered little or no change in 1985, and plunged in 1986. Concurrently, import and export volumes declined in 1984 and fell even more steeply in 1985, before recovering in 1986. *The increase in the volume of exports is mainly based on a strong recovery in groundnut production*, due to a change in the previous climatic situation. However, as groundnut prices felle down on world markets, total export receipts rose less than expected. This shows how much Senegal's export performance is influenced by developments in the groundnut sector. On the other hand, *the decline in the import value is mainly responsible for the improvement of the balance of payments*, as we shall see. Such decline is also due to external factors, like the falla in international oil prices.

Looking at *debt* data, there is a steep increase in the debt ratio in 1985 (80%), and a continuous increase in debt services, reaching the share of 6% of GDP in 1987.

With regards to GDP *by expenditure category* the share of investments in around 14% (4% of which are public

investments), and it doesn't show any relevant variations. Therefore, the increase in GDP has partially been transformed in consumption expenditures and, particularly, in private consumption, given the decrease in public expenditures. However, the domestic savings seem to have benefited the most from the GDP increase, notwithstanding the decrease in interest rates.

Adjustment with fragile growth

The implementation of the structural adjustment program could seem to be successful in the case of Senegal, looking at some macroeconomic indicators such as the GDP rate of growth or the balance of payments.

With regard to the GDP rate of growth, it is possible to identify three main reasons explaining the positive results during the last four years:

1. first, in 1985 Senegal registered a *recovery of agricultural production* due to the interruption of a long period of drought: we can see a strong correlation between GDP and GDPA (0.86) (table 2);
2. secondly, some price policies have been strongly effective:
 - in the groundnut sector the increase in production was also due to the increase in the producer's price from 70 FCFA/KG to 90 FCFA/KG. Moreover, there was a rise in small-scale processing of groundnuts, in response to an increase in retail prices of vegetable oils and therefore a reduction in the amount of groundnuts processed for exports by the two oil-milling protected companies;
 - in the food crop sector, millet and sorghum prices were liberalized and, in 1986, the controlled price of rice was increased. As a result, the areas under cultivation and production have increased considerably.
3. thirdly, *in the public sector a restrictive policy has been implemented* in order to reduce public demand. The

budget deficit has been actually reduced from 6% of GDP in 1983 to 2% in 1986. The impact of this reduction has been positive on GDP growth, as shown by the coefficient of correlation between GDP and public deficit (PDEF) (0.97). The improvement in the budget situation resulted from a very small reduction in public consumption and a more considerable reduction in public investment. There is in fact a very weak correlation between reduction in public deficit and public investment (PINU) (- 0.97) and between GDP and PINV (- 0.90). The reduction in public expenditures was also a result of the tightening of recruitment and salary policies. Finally, the implementation of the reform of the general tax code in 1987 has improved revenue performance. It is important to emphasize that a considerable amount of revenues derives from taxes on rice and oil, because their prices are fixed at a higher level than the international one.

4. the fourth and most important reason to explain the positive GDP rate of growth is the *reduction of the deficit of the balance of payments*. Looking at the components of the balance of payments (BOP), the reduction of the current account balance (BCA) seems to be the main cause of the improvement since 1986. This is shown by the analysis of the statistical correlation between BCA and BOP (0.94).

The analysis of the components of the trade balance explains the origin of the balance of payments improvement: the reduction in imports. In 1986, there was in fact a strong reduction in the oil price and of course this induced a reduction in the imports value. Besides, the price of rice on the international markets also decreased, further reducing imports.

With regard to exports, Senegal obtained a limited increase notwithstanding an increase of export production such as groundnut. Unfortunately, the terms of trade of Senegal's export products are in fact ominously decreasing.

From the analysis of the available data, it seems

therefore that the growth induced in the economic system is not due to the implementation of the structural adjustment policies but mainly to exogeneous reasons, particularly to the decrease in oil price on the international market. For that reason Senegal's growth seems to be fragile and transitory.

Different reasons can be found to explain the failure of adjustment policies in inducing structural changes in the economic system:

1. first, the implementation of *contradictory measures* has been very common in Senegal. A major example is the very recent (1988) reduction of both the groundnut and rice prices, whose increase was one of the main factors in the recovery;
2. with regard to agricultural policies the contradictions are also many. It is difficult to find the economic reasons to explain the concentration of investments in the region of the "Fleuve", favouring a top-down process of farmers' settlement, instead of emphasizing the small competitive farming activities. It is not easy also to understand why the policy of "desengagement" of the public sector did not consider the grassroot autonomous peasants associations as preferential partners, preferring instead to impose a new institutional structure such as the "sections villageoises". Moreover, the credit policy has strenghten the discrimination against the small farmers, giving access to credit only to institutionalized cooperatives;
3. with regard to the industrial strategy, the objectives of the *privatization policy* have not given any results until now. None of the 34 enterprises to be privatized have been in fact sold. Besides, the elimination of *over-protectionism* has rightly induced the liquidation of some very inefficient firms but the lobbies' control over the scarce available resources became stronger: most of the building sector and the related big public works, the edible oil industry, and the available credit are under the strict control of the Murides lobby. What role liberalization can play in such supply's structure, without specific resource-sustained

strategies for promoting the rise of new entrepreneurial subjects and initiatives?

4. on the public side, the *reduction in investment expenditures* can represent a constraint to economic growth, because the improvement of the infrastructures is an important condition to create a favourable climate for private investments;
5. on the external side, a major constraint to the objective of getting prices right is the *impossibility to devalue* the franc CFA, linked with a fixed exchange rate to the French franc. A limited devaluation has been however introduced in terms of the real exchange rate through the introduction of taxes on imports and subsidies on exports but, there is an attempt to discourage the introduction of these mechanisms in order to favour the objective of a complete liberalization of the border trade;
6. finally, a particular concern regards the progressive and continuous increase in the *debt*. In spite of the decrease in capital inflows, the debt ratio has in fact reached 70% in 1987/88 and the total debt services 21% of the exports.

As a first conclusion we could stress that — although some external factors have allowed a partial achievement of the standard objectives of structural adjustment policies — the will to reach a compromise with the old rent-seeking élites has in fact induced the implementation of very contradictory measures. Liberalization has not been able to give incentives to private initiatives and therefore, in many cases, the place left by the State has been taken by the protected enterprises, the bureaucratic cooperative system and the “projects”.

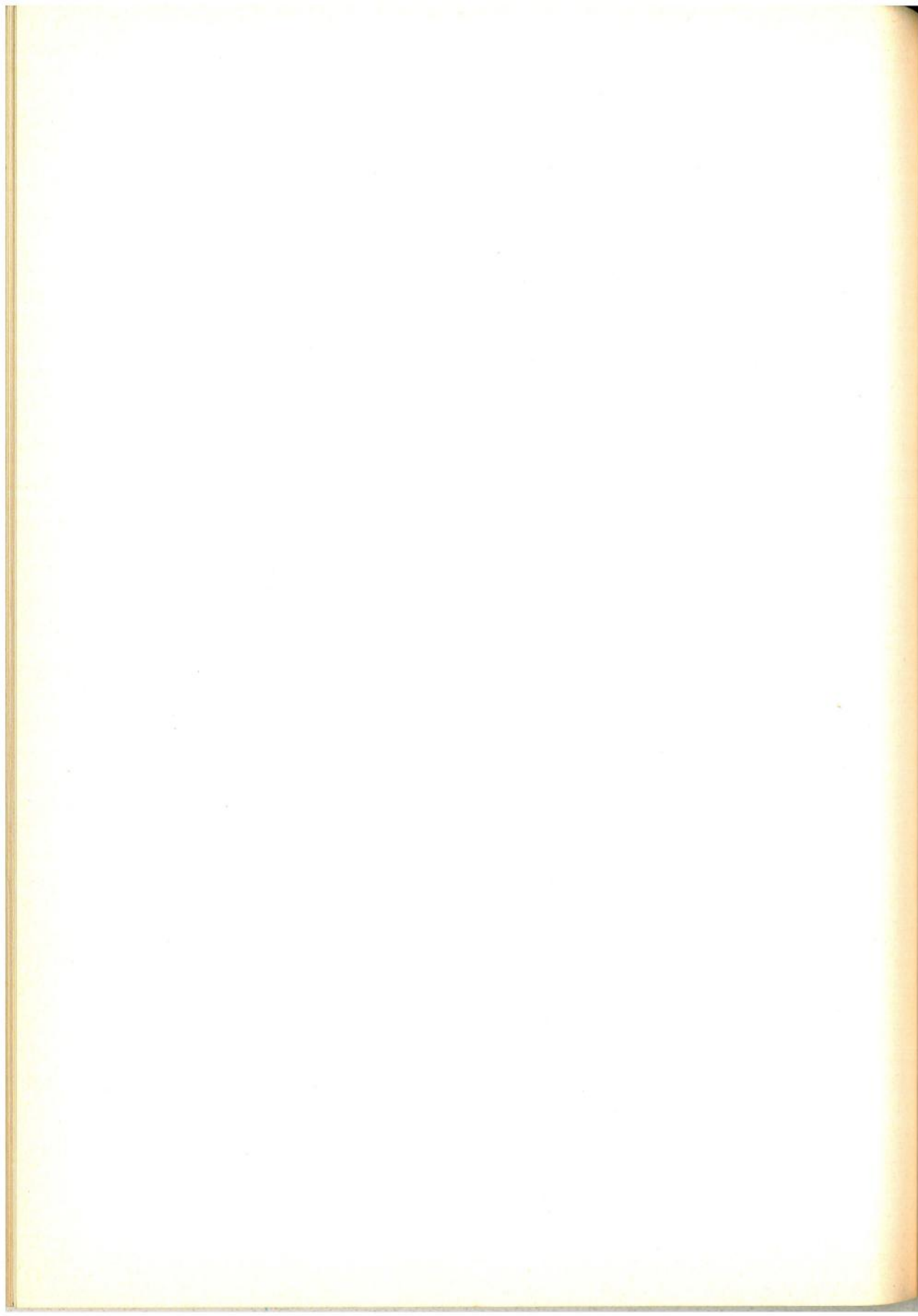
This caused a very difficult social situation: the most vulnerable social groups — both in the towns and in the countryside — have not received any compensation for the adjustment costs they have sustained: the increase in food prices, the reduction in groundnuts price, the break-down in agricultural input supply, the decrease in urban employment, etc. The Government has been unable to offer an alternative access to income and food.

Table 2. *Coefficients of Correlation, Senegal 1982-87*

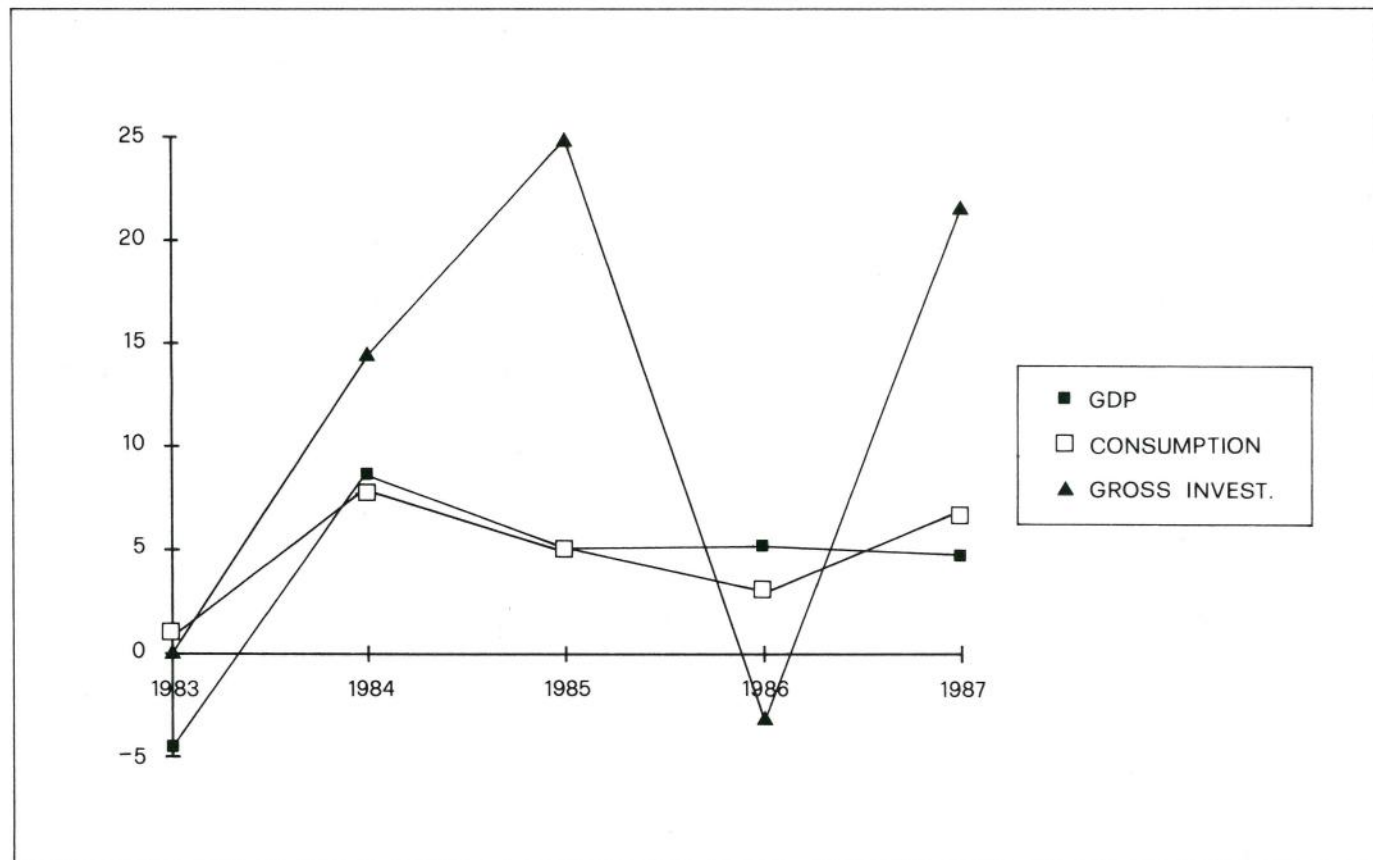
BCA,	BOP	0.94
GDP,	GDPA	0.86
GDP,	PDF	0.97
GDP,	PINV	- 0.90
PDEF,	PINV	- 0.97



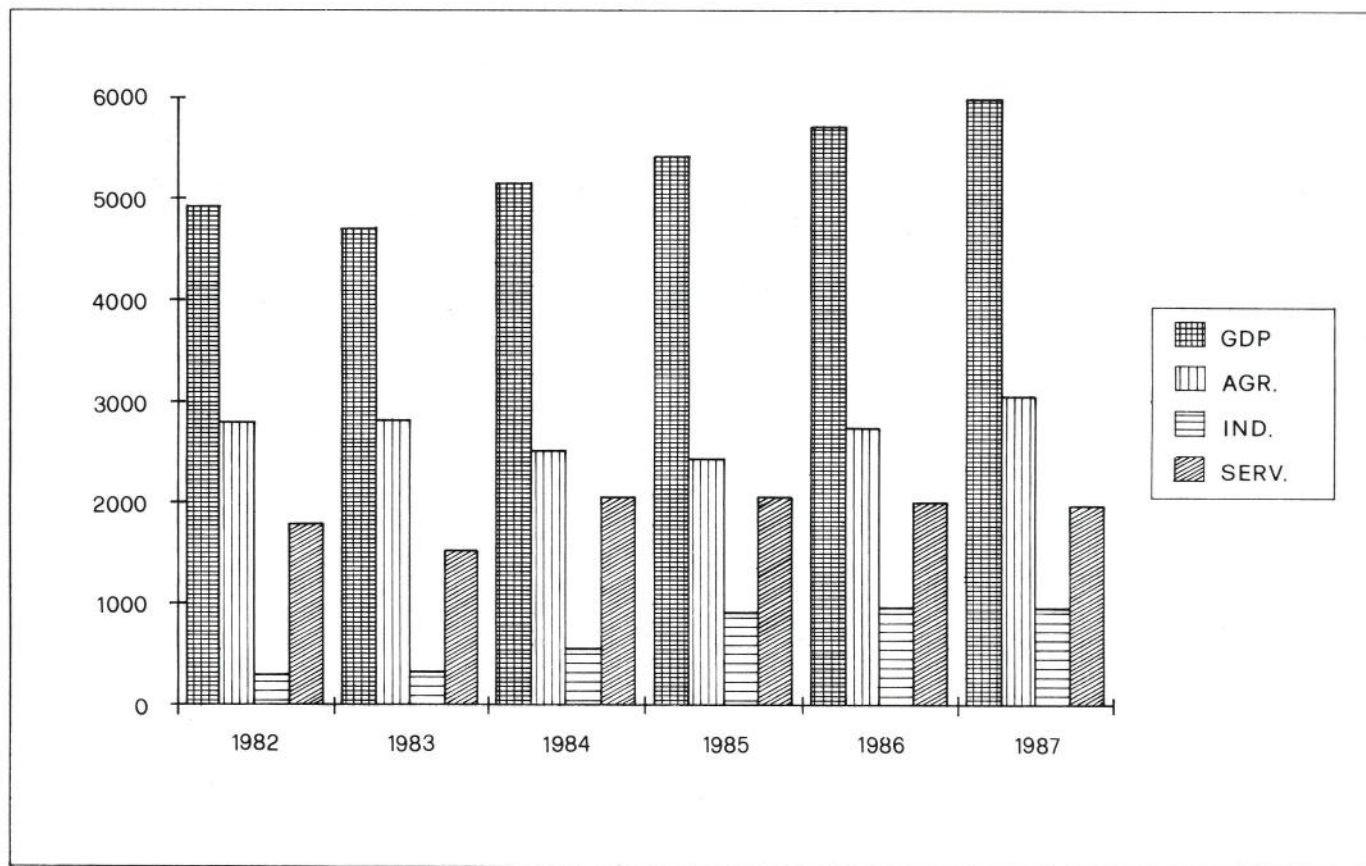
DATA ON GHANA AND SENEGAL



GHANA: *GDP by Expenditure Category*
(annual growth rate in constant prices)

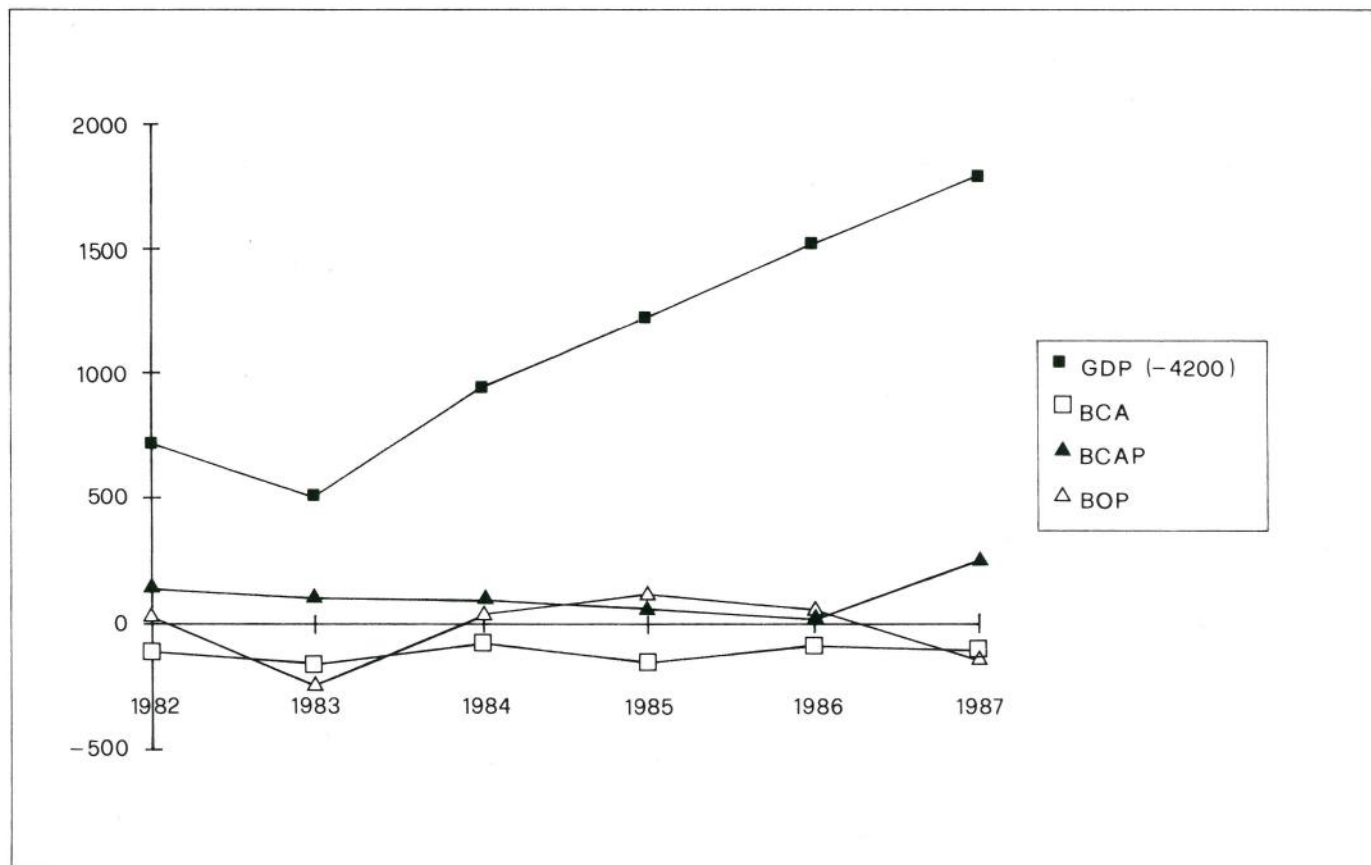


Source: IMF 1988

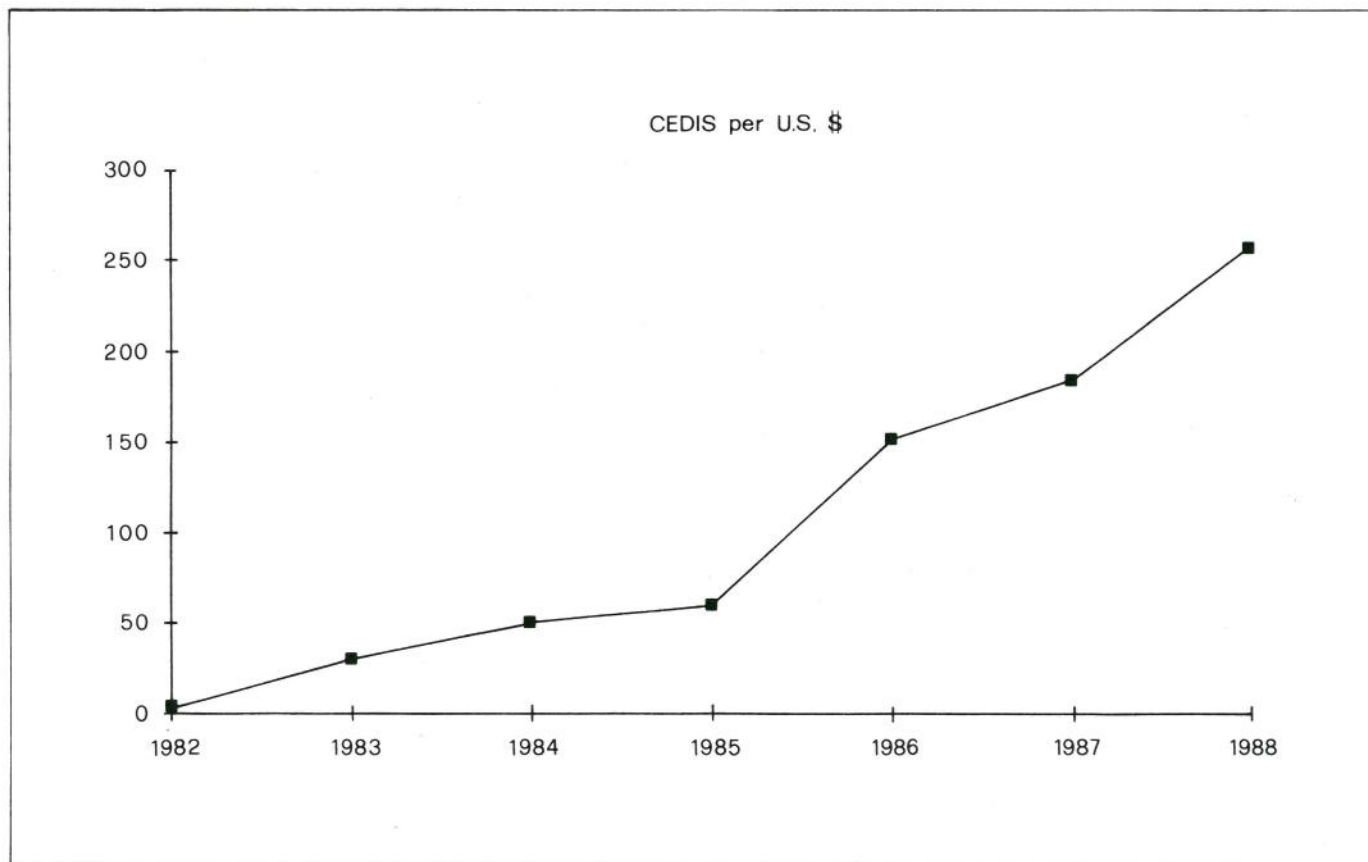
GHANA: *GDP by Sector* (millions of Us \$)

Source: IMF 1988

GHANA: *Balance of Payments* (millions of Us \$)

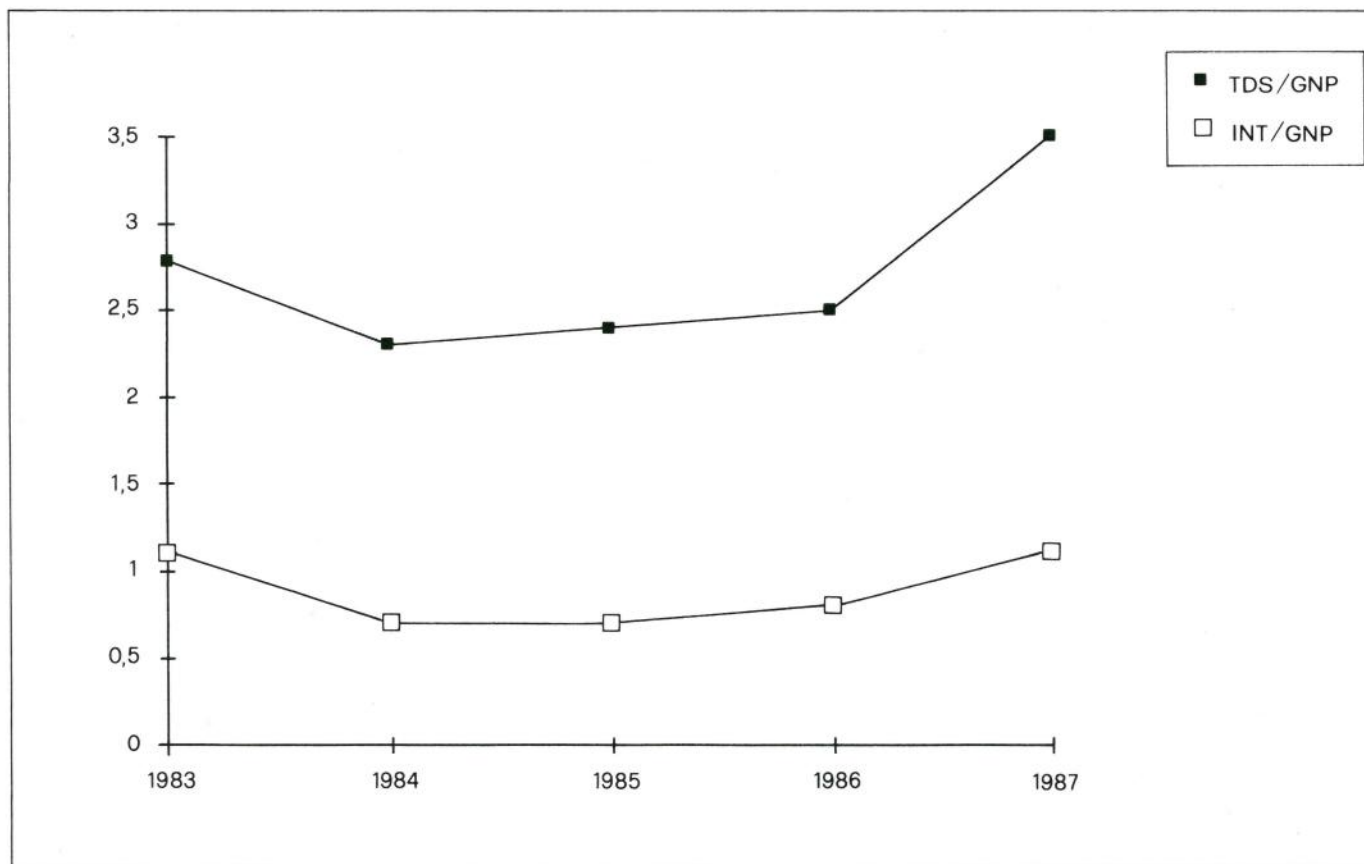


Source: IMF 1988

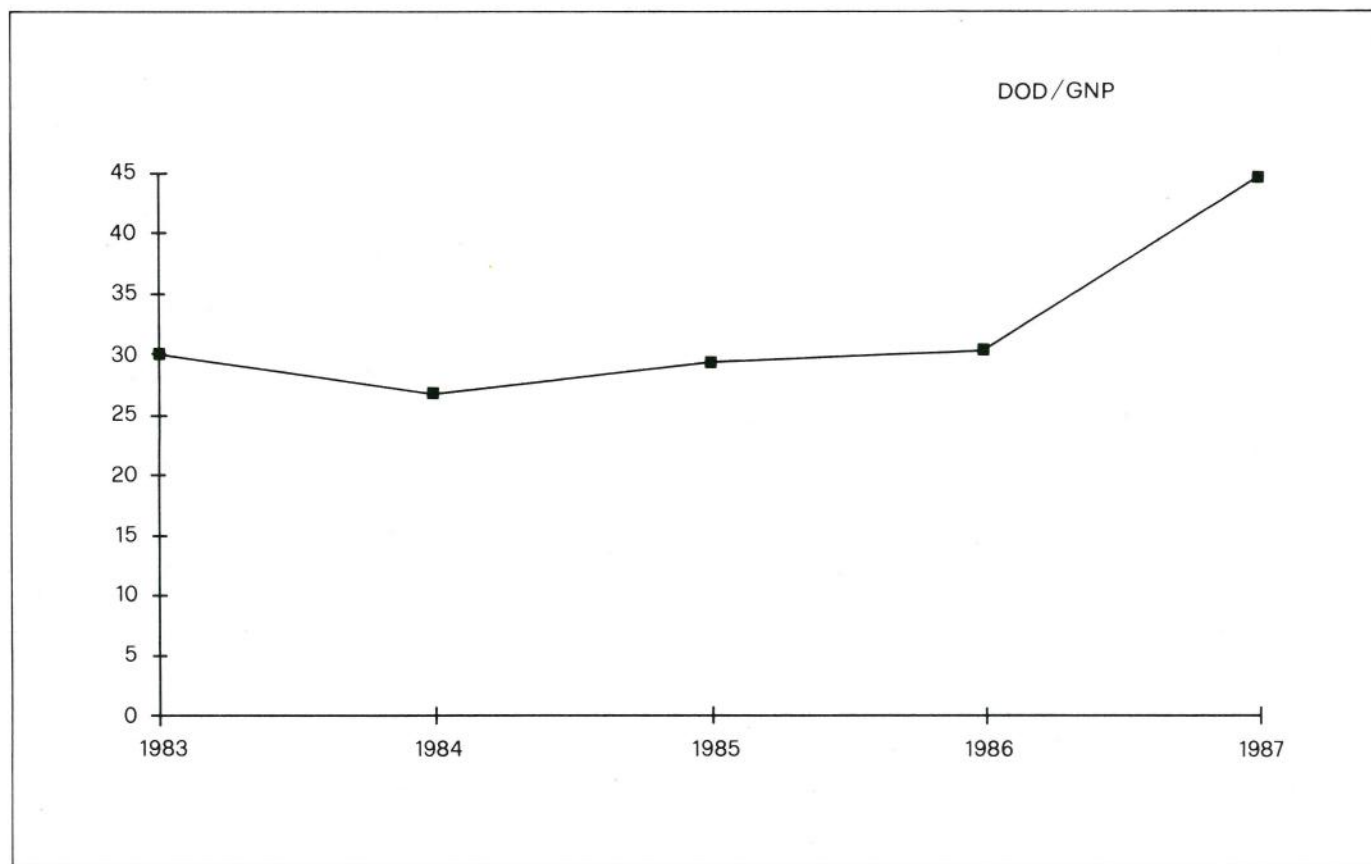
GHANA: *CEDIS per Us \$*

Source: Bank of Ghana

GHANA: Total Debt Service and Interest Ratio (%)



Source: World Debt Tables 1988

GHANA: *Debt Ratio (%)*

Source: World Debt Tables 1988

GHANA: GDP by Expenditure Category

(Annual growth rate in constant prices)

	1983	1984	1985	1986	1987
GDP	- 4.6	8.6	5.1	5.2	4.8
EXPORTS	- 45.7	9.5	6.5	41.6	29.4
IMPORTS	- 10.4	5.1	23.4	7.2	63.5
CONSUMPTION	0.9	7.8	0.5	3.1	6.7
- private	1.8	13.8	6.8	3.3	2.2
- public	- 2.0	- 12.9	- 3.1	1.7	29.5
GROSS INVEST	- 0.1	14.3	24.8	- 3.2	21.5
GR. DOM EXPEN	0.9	8.3	6.5	2.5	7.9

Source: IMF 1988

GHANA: Balance of Payments (millions of Us \$)

	1982	1983	1984	1985	1986	1987
GDP	4920	4703	5146	5423	5729	5995
BT + SERVICES	- 191	- 247	- 279	- 293	- 275	- 426
TRANSFERS	82	89	203	136	190	324
BCA	- 109	- 158	- 75	- 157	- 85	- 102
BCAP	138	102	93	62	20	255
BOP	27	- 243	37	116	57	- 139

Source: IMF 1988

GHANA: Macroeconomic Indicators (annual % change)

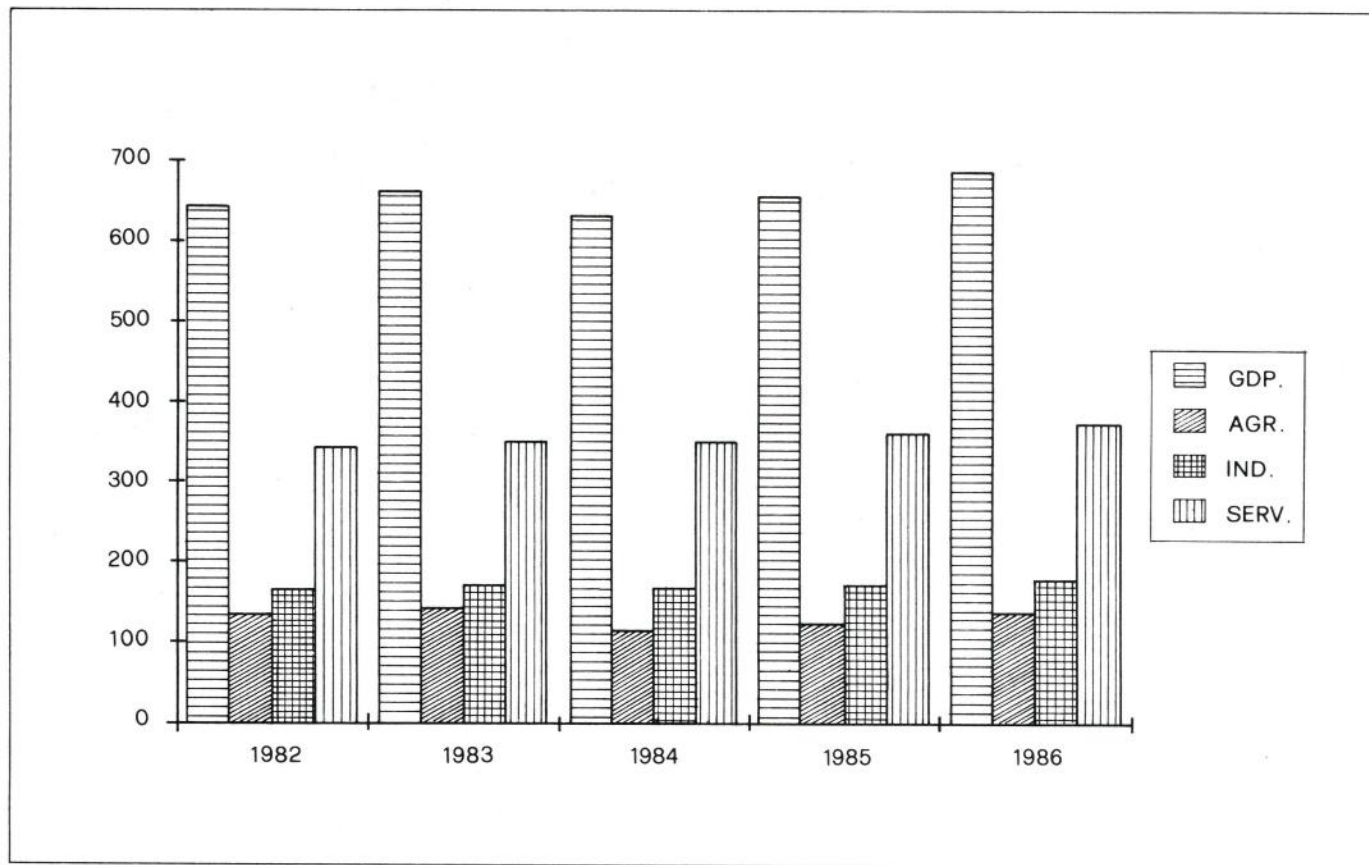
	1983	1984	1985	1986	1987
GDP	- 4.6	8.6	5.1	5.2	4.8
Terms of Trade	6.8	30.2	- 5.9	13.9	- 8.8
GDP deflator	123.3	35.3	20.6	41.7	39.2
Credit to the Gov.	90.3	147	12.5	9.1	- 25.0
Credit to the rest	- 43.7	295.8	128.3	50.8	20.8
Discount Rate	14.5	18	185	20.5	23.5

Source: IMF 1988

GHANA: Debt, (DOD) Total Debt Service (TDS) and Interests (INT) (%)

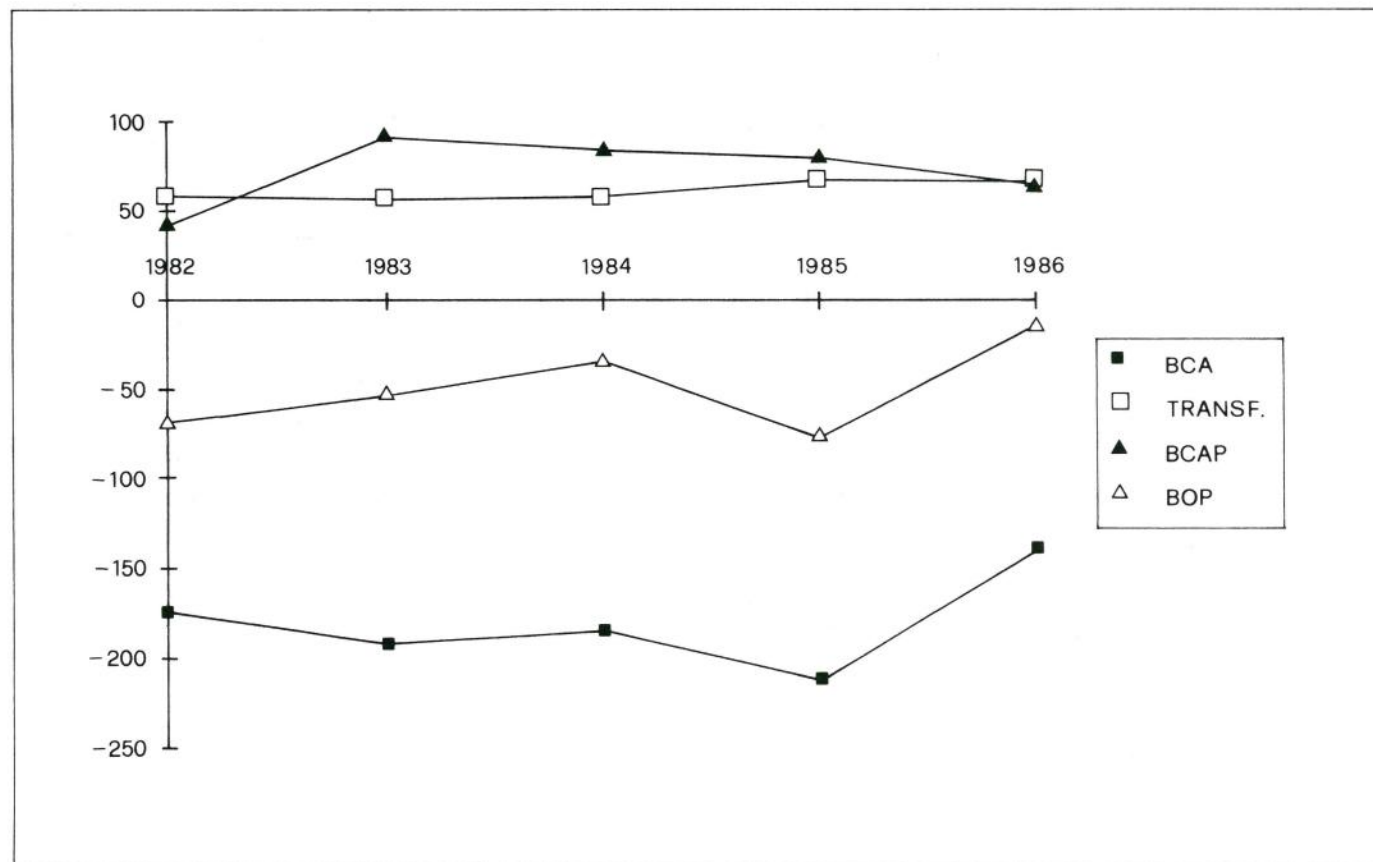
	1983	1984	1985	1986	1987
DOD / GNP	30.1	26.7	29.3	30.3	44.7
DOD / EXPORT	275.34	205.05	204.9	225.54	267.81
DOD / IMPORT	241.95	188.64	193.06	230.4	236.32
TDS / GNP	2.8	2.3	2.4	2.5	3.5
INT / GNP	1.1	0.7	0.7	0.8	1.1

Source: World Debt Tables 1988

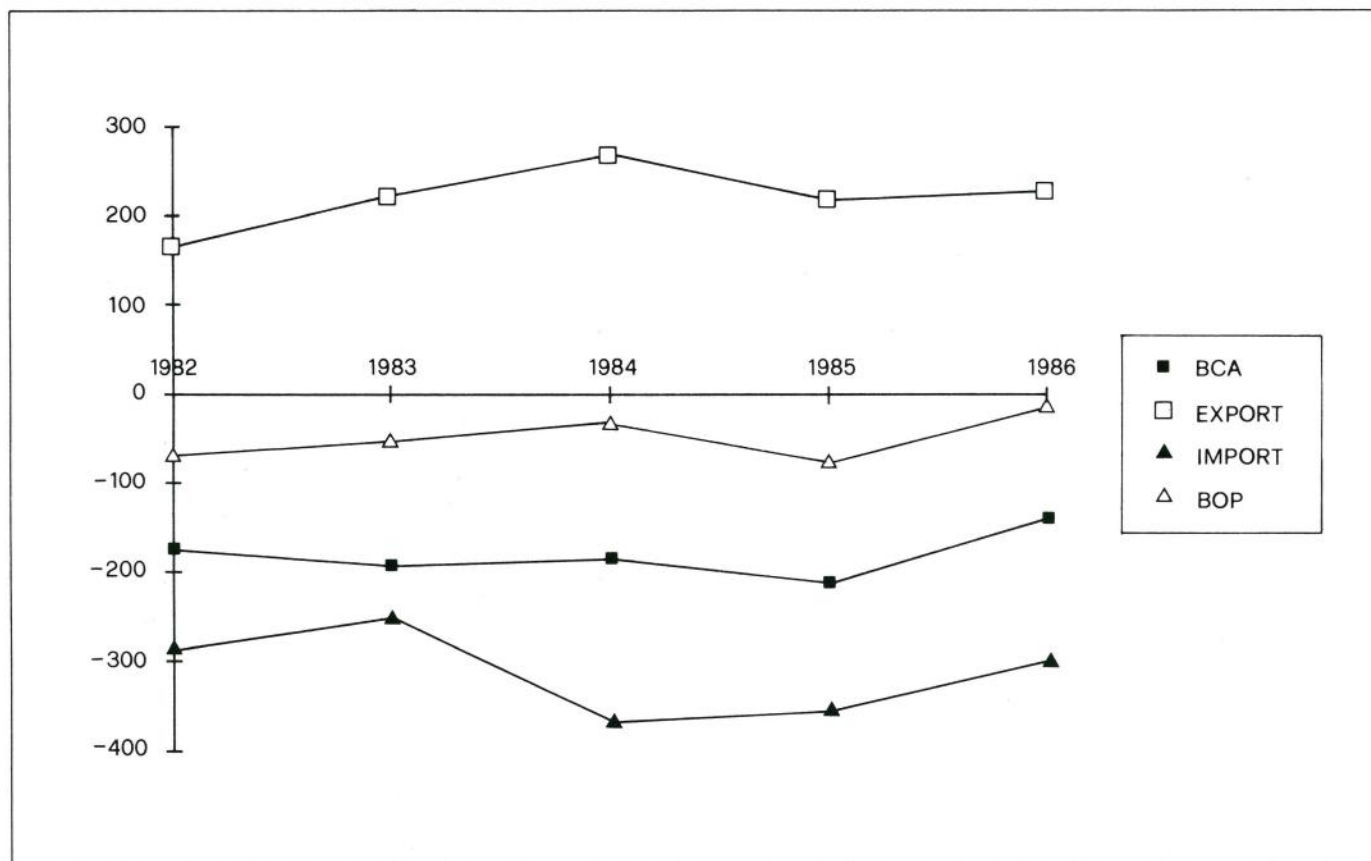
SENEGAL: *GDP by Sector* (billions of CFA francs 1979)

Source: WB 1987

SENEGAL: *Balance of payments* (billions of CFA francs)

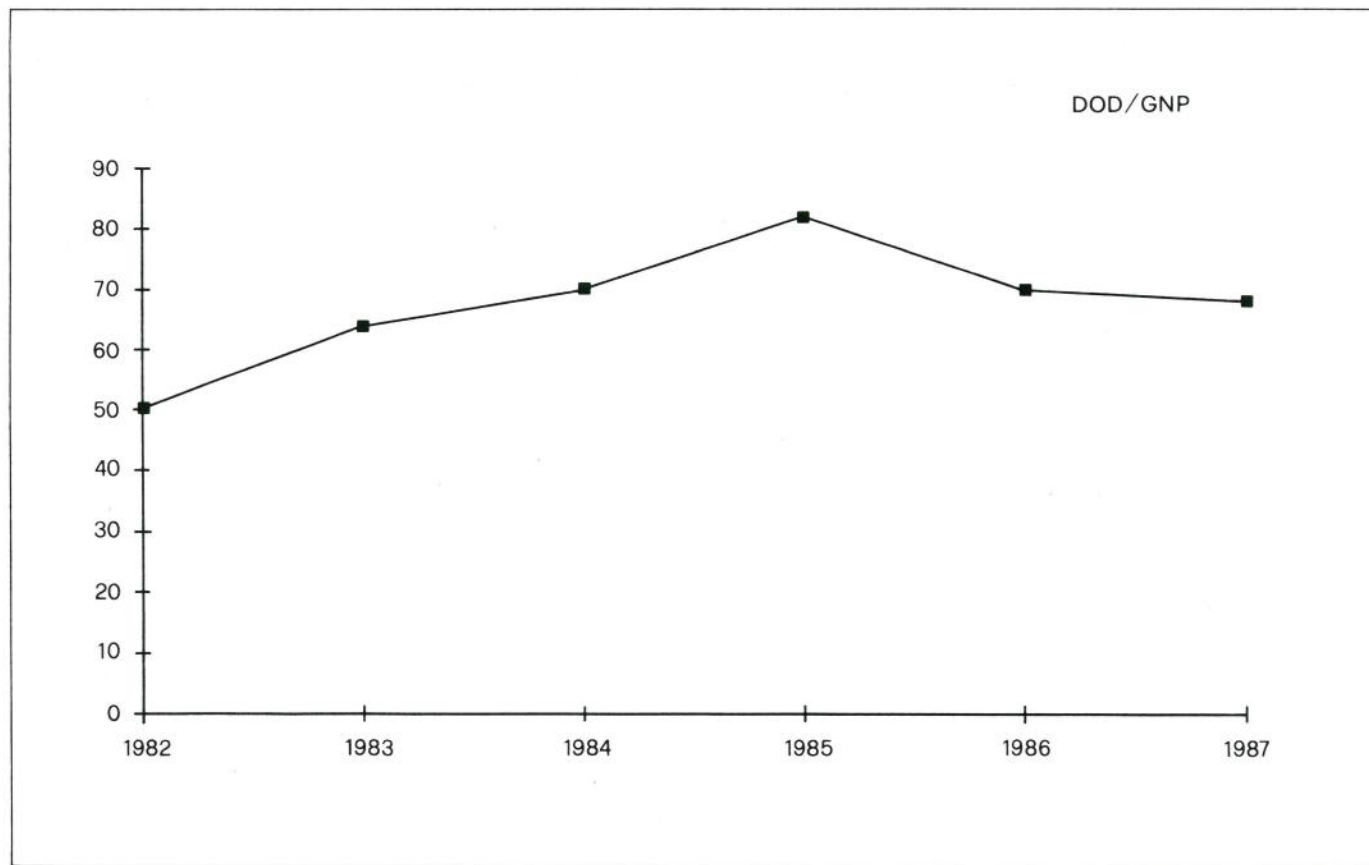


Source: WB 1987

SENEGAL: *Balance of Current Accounts* (billions of CFA francs)

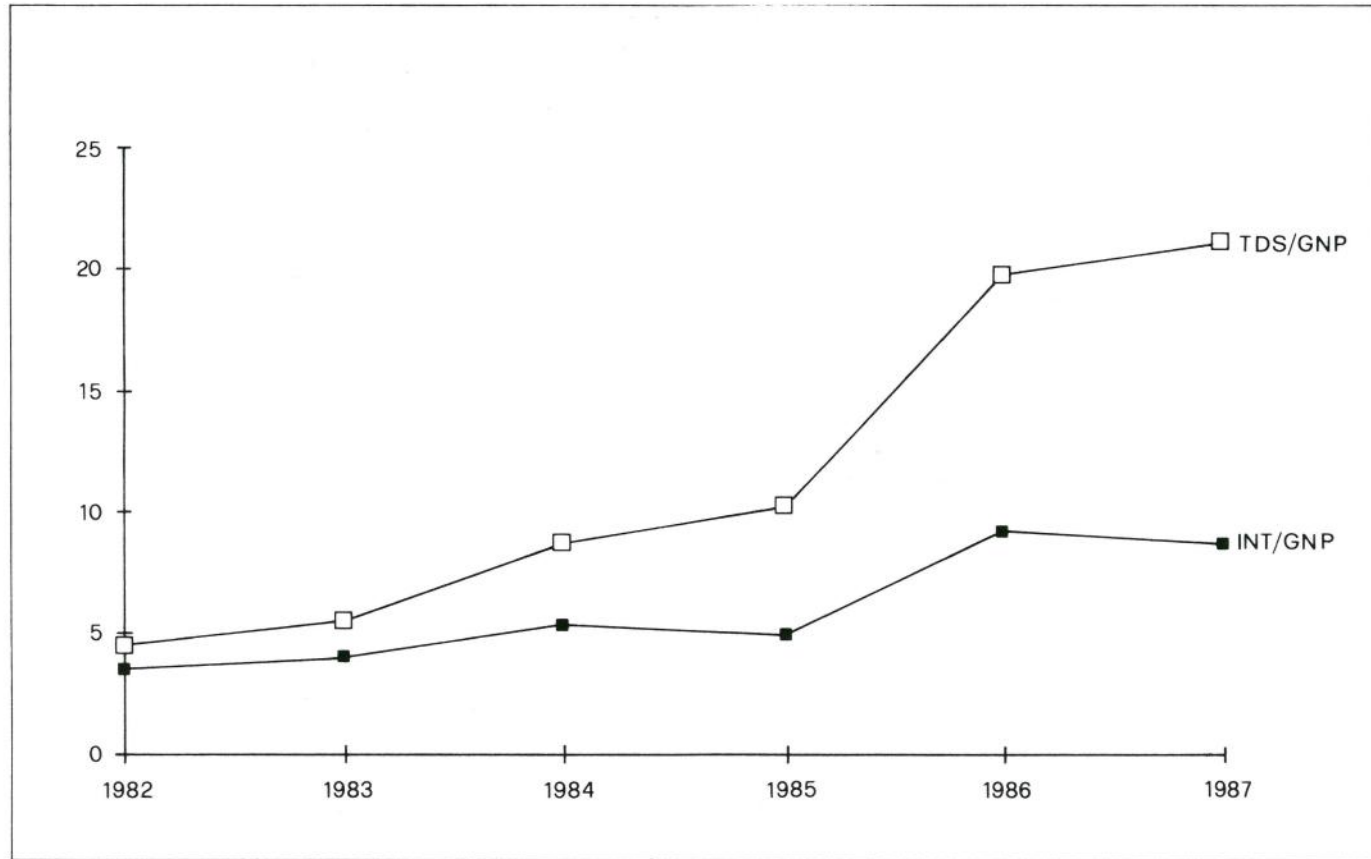
Source: WB 1987

SENEGAL: *Debt Outstanding Ratio (%)*



Source: World Debt Tables 1988

SENEGAL: Total Debt Service and Interests (%)



Source: World Debt Tables 1988

SENEGAL: *GDP by expenditure category* (billions of CFA francs 1979)

	1982	1983	1984	1985	1986
GDP	643	661	631	655	685
PUB. CONSUMP.	121	126	133	129	126
PRIV. CONSUMP.	520	519	472	518	519
GROSS INVEST.	91	96	94	83	88
DOM. SAVINGS	3	17	26	8	40
IMPORTS	290	301	273	254	262
EXPORTS	202	221	205	179	215

Source: WB 1987

SENEGAL: *Macroeconomic Indicators* (annual % change)

	1984/85	1985/86	1986/87	1987/88
GDP	- 0.5	4.2	4.2	4.4
GDP DEFL.	11.4	8.3	5.0	2.5
EXP. VOL.	- 14.1	2.3	2.3	16.3
IMP. VOL.	- 1.7	9.8	2.2	- 5.8
TERMS OF TRADE	9.1	- 6.6	10.3	- 7.3
REAL EXCHANGE RATE	5.2	7.3	- 2.0	- 1.9
DOM. CRED.	4.8	14.2	10.7	9.2
MIN. RATE SAV.	9.5	9.0	8.0	8.0

Source: IMF 1988

SENEGAL: *Balance of Payments* (billions of CFA francs)

	1982	1983	1984	1985	1986
GDP	844.3	939.5	1015.5	1152	1295.3
BT + SERVICES	- 164.6	- 179.7	- 173.5	- 210.1	- 137.4
TRANSFERS	58.4	56.7	58.3	67.6	66.5
BCA	- 106.2	- 123	- 115.2	- 142.5	- 70.9
BCAP	41.6	91.6	84.5	80.2	65.1
BOP	- 68.8	- 53.2	- 34.3	- 77.5	- 13.8

Source: WB 1987

SENEGAL: *Debt, (DOD) Debt Service (Tds) and Interests Ratio (INT) (%)*

	1982	1983	1984	1985	1986	1987
DOD / GNP	50.3	63.8	70.0	81.9	70.0	68.3
DOD / EXPORT	127.8	145.5	158.2	233.1	233.9	237.8
DOD / IMPORT	91.69	105.58	115.22	154.5	145.33	155.74
Tds / GNP	1.8	2.4	3.8	3.6	5.9	6.1
INT / GNP	1.4	1.7	2.3	1.7	2.8	2.5
INT / EXPORT	3.5	4.0	5.3	4.9	9.2	8.7

Source: World Debt Tables 1988



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LIST OF ABBREVIATIONS

AL	Adjustment Lending
Ap	Adjustment Programs
BCA	Balance of Current Accounts
BCAP	Balance of Capitals
BFPF	Basic Financial Programming Framework
BOP	Balance of Payments
CILSS	Comité Intérêt de Lutte contre la Sécheresse au Sahel
DCs	Developed Countries
ECA	Economic Commission for Africa
EEC	European Economic Commission
EFF	Extended Fund Facility, by the IMF
ENER	Effective Nominal Exchange Rate
ERER	Effective Real Exchange Rate
ERP	Economic Recovery Program
EXR	Exchange Rate
FCFA	Franc of the African Financial Community (UMOA)
FF	French Franc
FOB	Free of Board
GDP	Gross Domestic Product
GDPA	Agriculture GDP
GDPNA	Non Agriculture GDP
IGADD	Inter Governmental Association against Drought and for Development

IMF	International Monetary Fund
LDCs	Less Developed Countries
MADIA	Managing Agriculture Development in Africa
NAL	Not Receiving Adjustment Loans
PDEF	Reduction in Public Expenditure
PINV	Public Investment
PROCELOS	Programme de Promotion des Céréales Locales au Sahel
SA	Stand-by Arrangement, by IMF
SADCC	Southern African Development and Coordination Conference
SAL	Structural Adjustment Loan, by the WB
SAP	Structural Adjustment Program
SOE	State Owned Enterprises
SPP	Standard Policy Package of an IMF Adjustment Program
T&V	Training and Visit Agricultural Extension System
UMOA	Union Monétaire Ouest Africaine (FCFA zone)
UNDP	United Nations Development Program
UNICEF	United Nations International Childhood Emergency Fund
WB	International Bank for Reconstruction and Development

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