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Fourth Meeting of the Conference of Ministers of African Least Developed Countries

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PRICING POLICIES IN AFRICAN LEAST DEVELOPED COUNTRIES
ISSUES FOR CONSIDERATION

E84-928

CONTENTS

A. INTRODUCTION

(i) Background, objectives and organization of the study

1. In the context of paragraphs 121 and 122 of the Substantial New Programme of Action (SNPA), the ECA secretariat in collaboration with UNCTAD, undertook a series of country case studies on pricing policies in Burundi, Central African Republic, Comoros, Ethiopia, Rwanda, Guinea-Bissau and Mali. Specifically, the studies dealt with measures to: (a) improve incentive schemes for upgrading productivity and increase output in the agricultural sector; (b) ensure better investment resource allocation in the context of national development objective and strategies; (c) improve the external and domestic terms of trade; (d) reinforce the institutional and legal framework for price policies and (e) improve price formulation techniques and to strengthen institutional capabilities for effective price control mechanisms. and monitoring.

2. The main purpose of this paper is to critically analyse the significance and implications of pricing policies as a major policy instrument in African LDCs based on the findings of the country studies and to submit pertinent proposals on measures that could be contemplated in such areas as price stablisation, the compilation and utilization of price statistics in price formulation, the strengthening of the legal and institutional framework in the context of economic planning and management and to establish the need for in-depth research on pricing policies in all African LDCs.

3. The paper is divided into five sections. The first section is the introductory part which gives the background and objectives of the study and a general over-view of the significance of pricing policies in over-all economic management with particular reference to its impact on the performance of the agricultural sector. Section B surveys the situation of price statistics in African LDCs. The mechanism of price formation and structures is discussed in section C giving an analysis of the general domestic and externally oriented macro-economic determinants of the price level. Based on the findings of the country case studies, a brief review of the institutional framework and price control systems in African LDCs is taken up in section D and finally section E concludes the paper with an analysis of the effectiveness of and constraints in implementing pricing policies in African LDCs with recommendations for the formulation of effective pricing policies.

(ii) Pricing policies in the over-all economic policy

4. The African continent as a whole is facing an extended economic crisis which is even worse for the African least developed countries whose structural weaknesses and resource constraints make them especially vulnerable to external shocks in conjunction with their already volatile domestic macro-imbalances. These conditions and the lack of the requisite foreign exchange to ensure effective production activities in key sectors notably agriculture, manufacturing and mining, had precipitated an upward trend in the general domestic price levels in the African LDCs both for locally produced and imported commodities, especially food imports.

5. In order to check these inflationary pressures which have engulfed the economies of African LDCs, the governments had attempted, over the years to devise and administer pricing policies as an integral part of over-all economic policy. The objectives of the governments' intervention in the formulation of domestic prices vary from country to country depending on the political and socio-economic conditions and the trade-off needed in overall and sectoral priorities of individual countries. In general, since the African LDCs are importing countries striving toward food self-sufficiency and cognizance of their dependence on primary products for exports, emphasis is usually placed on designing agricultural pricing policies with the aim of providing incentives to farmers to increase agricultural production, especially of food crops, either through farm price support or input subsidy. Consumers also benefit through the subsidization of major staple foods by retail price control or by an import subsidy if the commodity is imported.

6. In the manufacturing sector, investment incentive schemes, are instruments that enable policy-makers to intervene in the formulation of prices of locally manufactured goods in order to maintain a reasonable price structure for local industries. Such policies are also beneficial to consumers since the products of the import substitute industries are protected from external competition through the ban on importation of similar commodities.

7. Another rationale for price policies in African LDCs is that it is an instrument of "stabilization" where the governments are more concerned with price fluctuation than with the average level of prices. The stabilization programme usually aims at moderating interseasonal and intraseasonal price fluctuations. For instance, when producer prices are announced at the beginning of the growing season, the government reduces the price uncertainity facing producers and assists the farmers in production planning. In fact since all African LDCs are net importers of food, government intervention normally aims at insulating the domestic economy from the instability generated by international price fluctuations which increases the food import bills of these countries which constitutes an average of over 50 per cent of total imports. In Upper Volta, for example, the objective of the government's regional grain stabilization programme is to provide a more stable market characterised by reasonable prices to consumers and a fair return to producers.

8. On the whole, price policies in African LDCs are perceived as an instrument in the process of economic development as it affects income distribution through changing the remunerative producer prices for rural sector as well as realistic wholesale and retail prices. Inspite of the tenacity of the argument advanced in some quarters that delinks price policy with economic development, yet the stability of domestic food prices is of particular significance in African LDCs both economically and politically since a high proportion of the household budget of majority of the population is spent on food. As for the rural farmers who are mainly engaged in agricultural and related activities, pricing policies have been used as an instrument for producers to increase the level of their marketable surplus.

B. PRICE STATISTICS

9. Price statistics is a major aspect of pricing policies in African countries as it relates essentially to the amount of information on price structures for both analysts and policy makers. In many cases, given the very large subsistence sector where price mechanisms are not well established, it is often difficult to have detailed data on prices at the national level. It is in this spirit that the present section examines the nature of price statistics that are available in African LDCs.

(i) Price statistics in the system of national account

10. In the United Nations System of National Accounts there are provisions for recording of flows at market prices and at approximate basic value. Market prices may be either those paid by the purchaser or those received by the seller. On the other hand approximate basic values differ from the market prices in that they exclude net indirect commodity taxes. On the basis of these basic valuation, the source of production is valued at the producer's value and at the approximate base value while the disposition of production is valued at the purchaser's value. These distinctions in price valuation are important since they give a general categorisation of policies in respect of those focusing on either supply (source of production) or demand (disposition of production). No doubt any confusion between the price statistics that are used for the analysis of the problems belonging to the different categories will result into distortions in policy conclusions.

(ii) Available price statistics

11. The data on price statistics are often compiled using basic indices on: consumer prices, producer's prices, wholesale prices, foreign trade prices, and prices for producers of government services.

(a) Consumer price indices

12. The vast majority of African countries collect consumer prices and prepare indices fairly regularly. However, the scope of the price series and the indices is often limited and varies from country to country:

(i) So far as the geographical scope is concerned consumer price indices may cover the entire nation distinguishing between urban and rural sectors, or they may be limited only to urban centres or only to the major capital;

(ii) As for population categories, the consumer price indices relate mainly to African households with distinction between low income and middle-income households.

(b) Producers' price indexes

13. Although producers' prices have an important place in the system of price statistics and are useful for many economic analyses, few countries as yet have collected these statistics and calculated the producers' price indexes. The scope of the index varies greatly from one country to another: (i) from the geographical standpoint, the index generally covers the entire country; (ii) so far as classification is concerned, two methods are used, namely, the classification by commodity and by major branch of activity (agriculture, mining, manufacturing, electricity and water).

(c) Wholesale price index

14. A limited number of African countries have drawn up a general wholesale price index. In addition to the classification by commodity and branch of activity a few countries use classification by economic source (distinguishing between locally produced and imported goods) and classification by disposition (distinguishing between intermediate consumption, final consumption, gross capital formation and export) in preparing their wholesale price index. These indexes may cover the entire country or just the capital.

(d) Foreign trade price indexes

15. All but a few African countries now periodically collect statistics on foreign trade. The price index and the index of the unit value of imported and exported commodities apply to the entire country since the data are obtained from customs declarations. Some countries make adjustments when commodity coverage is incomplete.

16. An overall analysis of statistics on the different price indices reveals that: (i) Available price indexes lack homogenity since the basis of the calculations varies widely from one country to another and at different times within the same country; (ii) The most common data are those of the consumer price indexes and the foreign trade indices; (iii) very few countries have wholesale price indexes, producers' price indexes and indexes for very specific uses (iv) A very limited number of countries compile regular indices on wage, salaries and employments.

17. As a result it seems that other alternative price indicators must be found in order to effect the shortage of data on prices. It is of course, clear that until such a shortage of data is overcome the formulation of appropriate pricing policies and their subsequent implementation will be very difficult in most African countries.

(iii) Country practices in the collection and compilation of price statistics

18. In examining the extent to which price statistics have a bearing on the nature and usefulness of pricing policies it is important to fully understand the methods and practices used in collecting and compiling the different price statistics. In this way it can be seen whether policies are based on the relevant types of price statistics or not. The analysis in this section is based on a survey carried out by ECA on price statistics in Africa. 1/

19. For the scope and coverage of price statistics many countries in Africa compile the production price indices on a national level. However, many least developed countries like Uganda usually cover only industries in the capital city thus implying that the indices will not reflect the regional differentials in the structure of producer prices. Further, even for those countries which might cover the nation as a whole, coverage is limited at the level of the size of establishment (either on the basis of number of persons employed or value of gross output). This limitation also has implications on the policies that can be designed on the basis of the price statistics since small producers are not covered and, hence, pricing Policies would tend to ignore them.

20. At the sectoral level the most striking feature is that very few countries compile any indices of production of the agricultural sector. Most indices are calculated on the basis of industries engaged in mining, manufacturing and energy which in many countries constitute a relatively small percentage of national output.

21. For the wholesale price indices, the geographical coverage is mainly limited to the capital city as in Central African Republic, Rwanda, Ethiopia, Uganda. However, some African LDCs like the Sudan have a national coverage. For the consumer price statistics, most countries have distinctions in geographical and population group coverage. Countries like Botswana, Lesotho and Tanzania have a national coverage while others like Gambia, and Malawi cover only selected urban centres. Others such as Sudan, Cape Verde, Mali, Niger, Sierra Leone, Togo, Upper Volta, Burundi, Central African Republic, Chad, Rwanda, Djibouti, Ethiopia, Somalia and Uganda base their consumer price indices on only the capital city.

22. For the selection and definition of commodities, it is in general apparent that most countries follow different criteria in selecting a commodity to be included in the index. Some of the alternatives include (a) consideration based on the importance of the product in the market and in the economy as a whole; (b) considerations based on the degree of processing of the product; (c) consideration based on the overall turnover of the product together with the product's importance in the consumption pattern.

1/ See "country practices in the collection and compilation of price statistics in the African region", E/CN.14/NAC/65.

23. Finally, particular mention must be made of the institutional problems in the collection and processing of price statistics. In many countries, it is often the case that there are more than one institution that collects and compiles the data on prices. In some countries the Central Bank, the Ministry of Planning and the Ministry of Labour and Social Services collect independent statistics on prices and in some few cases the various compiled indices are not reconcilable. This makes it difficult for analysts and policy makers to have a reliable base of price statistics on which studies and policies can be based.

C. MECHANISM OF PRICE FORMATION AND STRUCTURES

24. Price formulation is a crucial area for the understanding of the peculiarities of the economies of the LDCs. Deviations of market prices from the true price that reflects the real cost of materials and factors is attributed to the imperfections of the domestic market and other internal structural imbalances as well as externally induced factors prevalent in African least developed countries. More specifically, the markets of LDCs are physically limited due to the predominance of the subsistence sector. The little marketable surplus is further constrained by (a) lack of storage facilities; (b) inadequate institutional setup for price fixation; (c) inefficient distribution system. Generally, the types of factors that influence price formation in these countries are those affecting the supply side in terms of the structural imbalances in agriculture, manufacturing, energy, technology and transport, etc., and factors relating to the demand stimuli such as money supply, government expenditure, foreign markets and currency valuation.

(i) Price determination from the supply side

(a) Agricultural pricing policies

25. There has been a marked deterioration in agricultural performance in African LDCs as indicated by low production levels of major cash and food crops. The main factors associated with this situation are erratic weather conditions and other natural calamities and the lack of the requisite foreign exchange to purchase the necessary inputs for effective production activities. This has occasioned an increased reliance on food imports including food aid thereby engendering distortions in domestic prices,

26. In the context of the above conditions, the main objectives of the governments' intervention in agricultural price formation are as follows: (a) to reduce the price uncertainty facing producers and consumers of agricultural products; (b) to provide incentives to farmers to increase their production base and to attain food self-sufficiency; (c) to enhance government revenue through taxation of agricultural exports; (d) to increase farmers' income and thus reduce the growing disparity between rural and urban income groups.

27. To attain these objectives, several pricing policy instruments have been used by the governments of African LDCs which include (a) guaranteed floor prices of agricultural products; (b) annually fixed producer and consumer prices for food grain and other agricultural products at the farm gate, wholesale and retail outlets (c) input subsidies of agricultural production, mainly by the provision of fertilizers and seeds and (d) taxation of some agricultural produce other than food grains.

28. It has been contended, on many grounds, that most of the agricultural pricing policies are quite ineffective to produce sufficient market response to producers and consumers. The pricing policies are not clearly formulated and in many instances counterproductive for the successful implementation of agricultural strategies. For instance, while food self-sufficiency, as stipulated in the Lagos Plan of Action is a fundamental goal in practically all the LDCs programmes, the appropriate policies to find the most cost-efficient ways of achieving these objectives have not yet been formulated.

29. A major distortion in agricultural pricing in African LDCs is the provision of government subsidies and other farm price support measures aimed at keeping production cost low for farmers and to maintain low prices especially of food crops to urban consumers. Another aspect is the policy of price stabilisation which aimes at seasonal adjustment in price movements. Although adequate farm prices and other input subsidies encourage farmers to increase production, prolonged and indefinite price support and subsidies do entail high opportunity costs in terms of misallocation of resources, high cost price stablization programme and a drain on government resources.

30. Therefore, non-price policies such as direct government investment in irrigation and water control, adequate and timely supply of basic inputs, and development of agricultural research, etc. should be adopted as appropriate suport measures that could enhance productivity in the agricultural sector.

(b) Manufacturing pricing policies

31. One of the most distorting element in price formation in some African LDCs in the field of manufacturing is the pricing of output below production costs. Such a practice is more prevalent in the pricing of products of public enterprises which are heavily subsidized by government with the view to meeting welfare objectives. Such a policy can only be maintained by extensive subsidization and if continued will greatly affect labour and capital productivity and lead to lower employment.

32. The inadequate and irregular supplies of raw materials, spare parts and other imported basic industrial inputs due to severe shortages of foreign exchange in most of the African LDCs, have led to tremendous accumulation of idle capacities. The cost of holding idle stock is transmitted to the consumers through increases in the prices of locally manufactured products in order to prevent the establishments from winding up their operations.

33. Another very crucial cause of price distortions in manufacturing is the often very high levels of protection. This situation often involves high protection rates for industries that could even result into inefficiencies and, subsequently, into prices that are higher than they would otherwise be. A continued trend of lack of competitiveness of industries is, undoubtedly, not conducive to the proper evolution of price structures.

(c) Transports and marketing structures

34. Twelve out of the twenty six African LDCs are landlocked and as such these countries depend on the neighbouring countries for the transit of their trade. However, the inadequacy of transport facilities and the undeveloped infrastructure in African countries in general together with high costs of petroleum has made the transport cost of goods between countries and within a given country extremely high. This factor, therefore, constitute a significant proportion of the prices of goods.

35. As a corollary, inefficient marketing and distribution channels have considerably distorted the price formulation in spite of government policies to improve the flow of domestic trade. The differential between the controlled and market prices is a reflection of such problems. The presence of too many middleman and the unnecessary increases in service costs lead to disparities between the controlled prices and the market prices. However, the rationalization and elimination of such high trade margins and price differentials can be effected through intensive regulation of domestic trade by marketing boards.

(d) Technology and market structure

36. The imperfection in the capital market also has a direct bearing in price formation in African LDCs. The acquisition of technology at high cost and the increasing resort to capital-intensive techniques has led to the creation of high-cost enterprises with attendant increases in domestic prices. Moreover, the existence of monopolistic practices is a condition that influence price formation in the physically limited markets of the LDCs.

(ii) Price determination from demand side

(a) Wage movements

37. Wage movement is one of the fundamental determinants of the price level in any country. The wage and employment policy in the African LDCs are not strictly governed by market conditions but rather it is determined on the basis of social and political considerations. This is due to the fact that in the African LDCs the government is the largest employer and often has legislation on the wage level. In the case when money wages are rising sharply and domestic production stagnating or sliding down coupled with declining productivity, domestic prices will be subject to severe upward pressures.

38. It is often asserted that cateris paribus, the larger the wage share in GDP, the higher prices will rise and the greater the number of periods given by the economy to reach a new equilibrium. In most African LDCs, wage and salaries in the formal sector constitute less than 50 per cent of GDP. In addition, in these countries (a) per capita income in these countries is very low; (b) the increase in wages and salaries is very slow and (c) labour-union movement is very weak or non-existent in some countries.

(b) Government deficit and inflation

39. Many developing countries have had recourse to deficit financing through money creation, as a way of financing investment. But this Keynesian approach to deficit financing does not work effectively in African least developed countries because of the inarticulate structures of the economies. The governments have adopted various kinds of policies, in particular, the control of government expenditure as an important factor in demand management. Some of the policy measures include the restraining of demand, especially of imports, the narrowing of the budget deficit to a level consistent with a sustainable balance of payments deficit since most African LDCs are heavily dependent on external resources for the financing of their budget.

40. Nonetheless, the inflationary financing of expanded public works, together with the heavy reliance on import duties and other indirect taxes as the major source of government revenues, have compounded the cost structure of many basic commodities and thus led to substantial increases in the general price level.

Table 1: Methods of financing of public sector deficit in selected African LDCs

Country	Public sector deficit (-) or surplus (+) in million of country currency	Per cent of financing through			Chance in consumer price per cent
		Government savings	Domestic borrowing	External aid and borrowing	
Botswana (1982)	-56.24	-	-3.9	101.9	11.5
Burundi (1982)	-1209.90	44.8	81.5	26.3	10.5
Ethiopia (1978)	-421.90	2.4	79.6	18.3	14.4
Gambia (1978)	-35.85	-	23.6	76.4	8.7
Malawi (1982)	-66.97	-86.5	129.7	56.8	10.5
Rwanda (1979)	-1621.00	-	64.3	164.3	15.8
Sierra Leone (1982)	-119.90	-	86.9	13.1	31.0
Sudan (1983)	-129.90	-	13.9	86.1	26.5
Tanzania (1979)	-133.80	-0.1	82.5	17.6	11.8

Source: IMF Financial Statistics, Yearbook 1983.

41. Table 1 shows how deficit in the public sector was financed in selected African LDCs for which data is readily available. In Burundi, Ethiopia, Sierra Leone and Tanzania about 80 per cent of deficit was financed by domestic borrowing and the rate of inflation was particularly high in Sierra Leone (31 per cent), Ethiopia (14.4 per cent), and Tanzania (13.8 per cent). In Burundi where part of the deficit was financed through government savings, the rate of inflation was relatively low (10.3 per cent) compared to the other countries. However, in Botswana, Gambia, Rwanda and Sudan, the public sector deficit was mostly financed by external aid and borrowing.

(c) Money supply and inflation

42. Another determinant of the price level is the quantity of money or the rate of growth in the money supply. The inability of the governments to meet increased liquidity demands and to finance large accumulated losses of public enterprises and budgetary deficits led to excessive recourse to deficit financing from the banking system. Domestic credit both of the public and the private sector has expanded tremendously in recent years without a corresponding increases in production. The resulting rise in money supply, in most of the African LDCs, has triggered significant increases in prices.

43. It has been emphasized that the effect of money supply on prices is a long-run phenomenon with a lag extending over an average period of 18 months after the initial change in the money supply, but the inflation will then persist as long as the monetary growth continues at its higher rates. Looking at Table 2, one may establish that there is a high correlation between the growth rate of the money supply and the rate of change in the consumer price indixes in most of the African LDCs. In all the countries, the co-efficient of determination (R^2) is very high. The one-year lagged money supply significantly affects the price level than the current money supply, thereby supporting the above proposition that prices in most African LDCs react to the money supply changes after 12 to 18 months.

(iii) Externally-oriented price determinants

(a) World money supply

44. The inflation that had resulted from the expansion of money supply in developed market economies is transmitted to other economies including those of African LDCs through the fixed parity of exchange with the currencies of these countries. This is mainly due to the fact that African LDCs are heavily dependent on the market of such economies for imports of manufactured products and energy and on exports of primary commodities whose prices are determined in the international market. As a result, inflationary tendencies in the developed countries have an impact on the overall domestic price level in African LDCs through international trade in goods and services.

(b) Balance of payments

45. If the country imports more than it exports, it has to find the means to finance the trade deficit. There are several alternatives open to a country to finance a deficit brought about by expansionary measures at home: (a) it can run down its foreign exchange reserves; (b) it can attract private capital from abroad; (c) it can borrow capital in the international money market or direct from international development agencies or (d) it can seek for balance of payments support in terms of "free" import or foreign exchange. Other corrective measures may include, internal price and income adjustments, or by policies to switch demand to locally produced goods through physical controls on imports and devaluation of the currency.

Table 2: Relationship between change in consumer prices and changes in money supply in selected African least developed countries

$$\ln Pc = a + b \ln M_s + c \ln M_{s-1}$$

Country and period	a	b	c	R^2	SE	D.W
Burundi (1964-80)	2.34791 (18.32)	[illegible] (1.93)	[illegible] (3.12)	[illegible]	[illegible]	I.3575
Chad (1960-80)	2.14593 (13.10)	0.24432 (1.82)	0.31097 (2.07)	0.92407	0.08517	0.5151
Ethiopia (1960-80)	2.02607 (7.41)	-0.59241 (-1.42)	1.0551 (2.49)	0.8461	0.14815	0.5575
Gambia (1964-80)	2.90753 (+6.08)	0.06682 (0.61)	0.48784 (4.40)	0.9796	0.06126	1.1590
Malawi (1965-80)	2.15296 (18.10)	+0.15622 (1.60)	+0.35211 (3.57)	0.9686	0.06389	1.1258
Niger (1962-80)	2.5275	0.3192 (2.75)	0.1551 (1.20)	0.9831	0.0396	1.4009
Sierra Leone (1960-80)	1.22428 (8.09)	0.26579 (1.47)	0.48230 (2.43)	0.9661	0.08590	0.8397
Somalia (1960-80)	2.48065 (18.35)	0.052062 (0.24)	0.40212 (1.76)	0.9250	0.13157	0.6964
Sudan (1960-80)	0.30451 (1.62)	0.39160 (1.53)	0.32768 (0.86)	0.9450	0.14208	0.1706
Tanzania (1966-80)	-2.3496	0.2923 (0.84)	0.51042 (1.71)	0.9705	0.08827	0.08679
Togo (1962-80)	2.09295 (30.85)	0.05683 (0.47)	0.30936 (2.51)	0.99912	0.09212	0.4608
Uganda (1965-80)	-3.57125 (-7.72)	0.39818 (0.73)	0.94153 (1.58)	0.9707	0.21022	0.6788
Uppver Volta (1962-80)	2.97652 (38.88)	-0.23620 (-1.82)	0.61506 (4.49)	0.9621	0.06274	1.9735
Rwanda (1964-80)	2.10594 (14.21)	0.18985 (1.46)	0.40238 (2.89)	0.9471	0.11679	0.7575

Data source: IMF Supplementary, 1981, 1983

Note: PPc + consumer prices, M_s = current money supply; M_{s-1} = one year lagged money supply.

R^2 = Coefficients of determinant
SE = Standard Error
D.W = Durbin Watson

46. Except for a successful devaluation, all the other policy measures to correct the balance of payments will defeat the purpose of the internal expansion. A devaluation can improve the balance of payments only if it increases domestic output for exports and reduces expenditures on imports. In African LDCs devaluation is unsuccessful in achieving the required objectives of such corrective measures because world demand of their exports is inelastic. Thus, inflation may arise due to the increase in the prices of imports. The inflation in Tanzania was partly due to the devaluation phenomena because part of the balance of payments deficit was financed by credit expansion.

47. Also, the increasing reliance on commercial loans is one of the factors that have an upward pressure on prices. The high price of borrowing and interest rates constituted a formidable problem to these countries not only on the service payment but also led to the ignition of widespread inflationary tendencies in the economy.

(c) Exports

48. Because of their vulnerability to international economic situations, the price movements in the African LDCs are largely affected by developments in world prices since these countries are price-takers in international commodity markets. The recession which afflicted most of the industrialized countries in recent years, the development of the technology of syathetics and substitute, the intense competition of labour-surplus products of Asian countries, have slackened the demand and hence dampened prices of exports of primary products and reduced farmers income considerably in the African LDCs. The protectionist policies and imposition of quota restrictions had undoubtedly had an adverse effect on the general level of production which contracted to its lowest levels in recent years and intensified the recession in the LDCs.

49. Special care should therefore be taken in the determination of export tax which have a direct bearing and an adverse effect on the supply response. For instance, increased tax on exports have proved to hold back production and could not sufficiently stimulate supply to sustainable levels. However, this has to be based on the elasticities of foreign demand of the product in question. In cases where the commodity commands a strong monopolistic position in international markets, export prices are adjusted upwards by introduction of royalities and extra taxes so as to take advantage of its competitive stance and thus earn additional foreign exchange. However, careful examination should be given to export prices in terms of export commodity competitiveness and supply response.

50. To stabilize their prices in international markets and increase their competitive stance, further processing should be undertaken. Likewise, measures have to be taken to lessen the absorption of external inflation in the cost of the domestically produced goods for exports by seeking ways and means of reducing the import content and substitute it by domestic inputs.

(d) Effects of oil import

51. The oil bill in many African LDCs increased tremendously over the period 1972-1979, as a result of the seven or eight fold increase in the world price of oil. Most of the African LDCs had to finance oil imports by increasing the deficit on current balance and borrowing abroad or from IMF to cover the foreign exchange requirements

52. Table 3, below shows that the cost of oil imports as percentage of GDP in selected African LDCs increase on the average more than five times during the period covered.

Table 3: Cost of oil imports as percentage of base year GDP in some LDCs

1972-1979

Country	1972	1973	1975	1979
Ethiopia	0.4	0.6	2.4	3.0
Malawi	0.7	1.0	3.9	5.1
Sierra Leone	1.3	2.0	6.3	7.0
Sudan	0.7	1.0	3.3	3.8
Uganda	0.5	0.7	2.6	3.1
Tanzania	0.8	1.2	4.0	5.0

Source: ECA Statistics Division.

53. The question of whether there will be any change in the relative price of oil and oil-based products relative to the prices of other goods and services depend on the tax or subsidy policy of the government. In cases where the governments increase taxes on oil and oil-based products, this will affect the domestic prices of other commodities and, hence, increase the general price level since oil acts as an input in the production of other goods and services.

(e) Foreign exchange

54. The governments of most African LDCs had instituted exchange rate measures in order to attract foreign exchange resources to official markets, since the black marketing in currencies may cause inflation. Changes in exchange rate are immediately fully reflected in changes in domestic prices of imports. Such currency adjustments bring about changes in the relationship between the foreign price and the domestic price level.

55. Although devaluation is expected to boost exports and discourage imports yet it has not produced the desired result. While IMF is insisting on a series of devaluation (in some cases twice a year), the fact remains that changes in the exchange rate cannot permanently change the ratio between export and import prices but would significantly distort domestic prices.

56. Evidence, however, has shown that domestic prices of imports react fully to exchange rate changes than export prices. And as most of the capital and intermediate goods and in particular the strategic basic inputs that enter into the local production of goods are acquired through imports, continuous devaluation would undoubtedly lead to increases in the domestic general price level.

D. INSTITUTIONAL SETTING AND PRICE CONTROL SYSTEMS

(i) Overview of the institutional setting

57. In African LDCs, the institutions responsible for the formulation and implementation of pricing policies vary in number and nature depending on the country and are a function of the types and importance of the products in each country. In general, the Ministry of Trade is responsible for the determination of prices of non-agricultural locally produced goods and imported non-essential commodities in view of its role in the elaboration and application of trade and commercial policies. In a few cases, the prices of imported products are determined by the Central Bank which normally deals with import licensing.

58. In the case of essential commodities (e.g. salt, sugar, milk, flour, petroleum products, etc.), the fixing of prices involves a number of government institutions (central administration, customs, ministries of finance, planning, industry, labour as well as trade unions, etc.). In such cases, there exist in many of the countries studied, a co-ordinating machinery at the technical and/or .inisterial levels, with variations in their composition and characteristics.

59. The institutions dealing with pricing policies in the African LDCs are either still in their embryonic stage or are too numerous both of which deter their efficiency due to the fact that (1) their responsibilities are not often well defined; (2) co-ordination is non-existent or inadequate; (3) their decisions are not usually backed by technical analysis or respected; (4) the control mechanisms are conceived in such a manner that they do not take into account the constraints of resources and the complexity of operations.

(ii) Price legislations

60. The drawing up of price legislations in many African least developed countries dates as far back as 1965. However, in most countries such legislations have been revised and modified in recent years although some countries are still administering price regulations which were designed during the colonial era. The legislations in several countries relate to theddefinition of price regimes and the setting of prices for export and import commodities. In only one country, the following important elements are covered by the legislation: (1) the establishment of procedures for price determination (2) inventory control (3) quality control of marketed products (4) the monitoring of the activities of traders and the application of trade regulations.

61. The objectives of price regulations are not clearly enumerated and as such not easily discernible in the existing texts. In general, most of the legislation originate from the necessity for administrative controls rather than from the need to orient, control and direct economic activities on the basis of well defined

commercial policies. In all the countries, price legislations are ill-adopted to existing conditions and contain serious gaps. For instance (1) the prices of a number of locally produced food products are not subject of the legislation (2) the price of basic agricultural products and exports do not take into account production cost (3) import/export programmes tend to resort to discriminatory prices practices necessitating the control of imports from certain areas especially monetary zones.

(iii) Price control systems

(a) Administrative control system

62. In African LDCs, there is a preponderance of administrative control mechanisms exercised at different levels of both the determination and the supervision of prices in general. For the determination of prices, the administrative machinery intervenes at the level of taxation. With respect to supervising the main administrative elements, this relate to the verification of the price charged-vis-à-vis the official prices. This is often done by special price inspection services as well as other administrative structures like central banks and those institutions mandated by public authorities. Non-administrative mechanisms are often empowered to prosecute violators of price regulation with heavy penalities.

(b) Economic control systems

63. The economic control system in most African LDCs involve two important aspects namely, the control of stocks and price stabilisation programmes. With respect to inventory control, public institutions, particularly marketing boards are mandated to secure continuous supply of basic food products for all areas in the countries. Other institutions such as co-operatives are also involved in inventory control at a decentralised level and thereby act as price regulators. In this way they play an important role in regulating prices among regions and between seasons.

64. In view of the important effect of food aid on agricultural prices, the administration of food assistance programmes by designated government agencies is also of crucial importance. However, due emphasis must be put on possible distortions resulting from factors like transport cost, differential pricing, subsidies and the procedures to purchase products from different areas within the country.

65. For price stablization, many countries have set up special funds aimed at bringing about a balance between demand and supply. These funds which are usually financed through surtaxes on agricultural exports often exist for individually selected commodities.

(c) Effectiveness of price control system

66. Many of price control systems are inefficient and inadequate because of various reasons. These include, *inter alia*, (a) the inadaptability to the nature of economic

activities including problems of erratic weather conditions and seasonal variations, large subsistance sector, poor storage capacities; (b) the lack of knowledge of agricultural production cost which leads to setting of official prices which are very different from prices resulting from market forces; (c) the lack of resources, financial and human, to carry out the necessary activities (d) the very little importance given to relative prices and to the evolution of cost; (e) the lack of information on the true cost of imported commodities; (f) the absence of a standard system of weights and measures (g) the inexistence of a strong relationship between fiscal policies and custom legislation.

E. CONCLUSION

67. This preliminary paper has attempted to highlight the effectiveness of pricing policies as an instrument in economic planning and management in African LDCs. The objectives of the governments' intervention in establishing official domestic prices of goods are generally aimed at stabilizing the general price level and to ensure a reasonable price structure for local enterprises. In order to attain these objectives, pricing policies should be designed in a consistent and systematic manner within the context of national development policies and strategies and the trade-off needed in overall and sectoral priorities in the process of economic development.

68. With regards to the institutional setting and price legislations, the problems that have been identified include mainly, the lack of co-ordination among various government agencies in the administering of controlled prices, the inadequate financial and manpower resources to develop appropriate price formation techniques for the establishment of realistic prices, and the outdated nature of the price legislations in most of the countries. To redress these problems, it is recommended that the governments of the LDCs should endeavour to revise their existing legislations, strengthen the institutions responsible for price formation and ensure a better co-ordination of their activities.

69. As for price statistics, the African LDCs have to make efforts to improve the quality and quantity of the data especially with regards to national coverage instead of concentrating on particular areas in a country, more elaborate sectoral coverage for producer prices, particularly agriculture, increased coverage of the informal sector and the inclusion of indices on wages, salaries and employment as part of the package of relevant price statistics.

70. Finally, for the macro-economic determinants of the price level in African LDCs, it is pertinent that measures should be formulated with a view to restoring a better balance between supply and demand of basic commodities and to maintain a reasonable level in the expansion of money supply; devise appropriate fiscal policies affecting wage, employment and stablisation programmes, restrain demand, curb excessive government expenditures and maintain a better foreign balance by reasonable adjustment of the exchange rate.