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THE IMPLICATIONS OF STRUCTURAL ADJUSTMENT AND STABILIZATION PROGRAMMES ON LONG-TERM GROWTH AND DEVELOPMENT IN AFRICAN LEAST DEVELOPED COUNTRIES

(Issues for consideration)*

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* This study has been carried out as a Desk Research Project under ECA's special programme for African LDCs. However, the views expressed may not necessarily reflect those of the United Nations.

CONTENTS

INTRODUCTION

1. The 27 least developed countries (LDCs) in Africa 1/ can be described as the <u>periphery of the periphery</u> not only in region but also in a wider global context of economic interdependence. According to such critical economic and social indicators of long-term structural character (notably income levels, share of manufacturing in GDP and literacy), these countries are ranked as the poorest with extremely low per capita income. The Government revenue of these countries are extremely tight allowing for only limited flexibility in economic management.

2. With their formidable strucutral weaknesses combined with a hostile external economic environment, the LDCs have been hardest hit by the economic and social crisis in Africa as they are the least able to adjust to internal imbalances and external shocks. In fact, the African LDCs' economic and financial situation deteriorated sharply after the 1973-1974 oil price shock which, together with the drought conditions of 1970-1975, further oil price increase in 1979-1980 and mounting external debt obligations, placed immense pressure on economic growth performance, particularly during the first half of the 1980s. Hence, during 1981-1984, the requirements for self-reliant development and growth in African LDCs became a need for stack survival as persistent economic recession made the key macroeconomic aggregates (GDP, exports, imports, etc.) to plunge far below the targets envisaged by the SNPA. 2/

3. With the domestic savings rate remaining stagnant coupled with widening deficit in key balance of payment and other financial variables and dwindling external resource flows, the African LDCs have had no choice but to resort to short-term adjustment and stabilization programmes to redress these internal and external imbalances. Since 1981, 15 African LDCs 3/ have had to formulate such programmes with the use of IMF resources under various facilities including the recently established structural adjustment facility (SAF) as well as loans from the World Bank. These programmes are designed for a period of 12-36 months depending on the magnitude of the external payments disequilibria. Other LDCs, such as Burkina Faso and Rwanda, have pursued programmes of a similar nature but outside the framework of a formal IMF and/or World Bank agreement.

4. The adoption of adjustment and stablization programmes supported by the IMF has become a <u>sine qua non</u> for mobilizing international assistance for development finance and debt relief. But, available information on LDCs with consequetive adjustment programmes during 1981-1985, indicate that the implementation of the packages had not been a sufficient condition for securing further complementary resources from external sources. In fact, the scramble for alternative financing led many countries to negotiate and utilize high-cost short-term credit to boost up economic activities, which, bunched with debt-service reuirements of long-term obligations, engendered unmanageable payment levels.

5. The present study under the <u>ECAs</u> special programme for the African LDCs, was requested for by the sixth meeting of the Conference of Ministers of African LDCs. 4/ It is a policy paper, whose objective is to examine the impact of the programme packages, especially in terms of the conditionality clauses and performance criteria of IMF and/or IBRD

implications on long-term growth and development of African LDCs. Although reference will be made to the 1960s and 1970s, the main coverage of the study is 1979-1980 to present because it represents the period of full-scale economic and social crisis in Africa and marked the beginning of increased IMF involvment both in terms of financial commitment and number of countries covered in the African region.

6. In addition to the introductory part, the strucuture of the paper is as follows: Section I looks at the economic performance of the African LDCs as a group during 1975-1985, with a brief analysis of trends in key macro-aggregates and sectoral performances, including a synopsis of the balance of payment imbalances and external debt. The nature and causes of the internally and externally induced imbalances in these economies is also examined. In section II, an overview of the adjustment and stablisation prgrammes is provided with a focus on the policy packages, especially the adaptability of the conditionalities associated with the use of fund resources for redressing external imbalances in African LDCs. An impact analysis is made in section III where, an attempt is made to evaluate the extent to which the LDCs have met the quantitative (macro-economic aggregates) and qualitative targets of the programmes. Finally, the concluding section IV summarizes the main findings of the study on the basis of which the Conference will draw up its recommendations on the adaptability of policy packages of adjustment and stabilization programmes as well as the necessary conditions for the implementation of such programmes in African LDCs.

I. ECONOMIC PERFORMANCE AND EMERGENCY OF IMBALANCES

A. Structural characteristics

7. Of the 27 least developed countries in Africa, 12 are landlocked 5/ and 3 are island countries 6/. The combined population of these countries accounts for about 35 per cent (176.5 million) of the population of developing Africa (504.7 million). On a country basis, the population size differs markedly among the LDCs ranging from 0.1 million in Sao Tome and Principe to 42.5 million in Ethiopia. In general, the LDCs are characterized by relatively small and scattered populations which, in part, have limited their ability to tkae advantage of economies of sale in their economic and social development.

8. Aside from these demographic features, the main structural characteristics of African LDCs are, inter alia, very low income per head, with the bulk of the population living far below a minimum standard of basic needs; very high proportion of the population in the subsistence sector; extremely low agricultural productivity necessitating heavy dependence on food imports; low level of exploitation of natural resources because of lack of knowledge and skills or lack of financing for their development; very limited development of manufacturing industry and extemely low level of exports per capita and, even with aid flows, very limited absolute availabilities of importes. 7/ Other features include: acute scarcity of skilled personnel at all levels; heavy dependence on expatriate in trade and other service sectors; very weak institutional and physical infrastructure of all kinds (including administration, education, health, housing, transport and communications). The LDCs

handicaps, such as landlockedness, small size and remoteness, drought and desertification, or high exposure to flood disasters.

9. These structural deficiencies are no doubt some of the major sources of the economic difficulties and relative poverty of the African least developed countries. They define, in a very real sense, the limits of growth and of economic performance in these countries while posing in themselves severe constraints to further social and economic development, partly by narrowing the scope for discretionary domestic economic policies and by rendering policy measures largely ineffective.

B. Other factors underlying the imbalances (1975-1985)

10. The African LDCs economic growth and development performance during 1975-1985 period has its antecedent in the quadrupling of crude oil prices in 1973-1974. The two oil price shocks (another in 1979-1980) combined with wide spread and protracted drought (1970-1975 and 1982-1984); unfavourable shift in primary commodity prices as a result of depressed world demand; and in general, unfavourable external economic environment, all ganged up in holding down the growth potential of the LDCs. After a modest growth in real GDP of 3.7 per cent in the 1960s, the LDCs recorded a dismal performance in the 1970s when GDP slipped to an average annual growth rate of 3.2 per cent. Except for few cases (Botswana and Malawi), growth in majority of the countries either stagnated or decelerated.

11. Agriculture, which is the main source of value added in total output (an average of 50 per cent of GDP), grew by a mere 1.4 per cent in the 1970s as compared to 1.8 per cent in 1960s as a result of the 1970-1975 drought which had a devastating impact on agricultural production, especially in the Sahelian LDCs. This trend was reflected in the poor performance of the largely agro-based manufacturing sector of the African LDCs (accouting for 11.1 per cent of GDP in 1970s) which registered a growth rate of only 3.7 per cent in the 1970s compared to a high growth of 8.8 per cent in 1960s.

Tablel. Distribution of and growth in real GDP in developing Africa a/

	Share in total GDP		Annual growth				
	1980	1985	1982	1983	1984	1985	1986
Least developed countries	13.6	13.1	1.8	-0.2	3.7	0.7	4.2
Oil exporting countries	65.5	65.2	-1.0	0.3	2.7	3.1	-0.3
Others	20.9	21.7	1.8	-1.3	1.5	4.4	3.8
Developing Africa	100.0	100.0					

Source: ECA secretariat

a/ Aggragate computed at constant 1980 market prices.

12. Despite the existence of the SNPA, 8/ the African LDCs continue to experience persistent down slide in economic growth and development performance during the first half of the 1980s largely as a result of the deepening internal economic crisis compounded by the 1982-1984 drought conditions. Overall, real GDP recorded an average annual growht rate of a mere 0.12 per cent (1980 price) during 1981-1984 which implies an average annual decline of 2.5 per cent in per capita terms. However, adequate rainfalls in 1985 coupled with increased resource concentration in agriculture resuscitated production with value added in real terms increasing by 0.5 per cent. This performance led to an overall economic recovery in 1985 with GDP increasing by 0.7 per cent in real terms, though on per capita terms, this corresponded to a decline of 1.9 per cent. The recovery is expected to be sustained in 1986 depending on the performance of the agricultural sector where output is estimated to have increased by 5.5 per cent. With the spill-over effects on agro-based industrial activities, manufacturing output is expected to increase by 2.2 per cent in 1985 and 3.4 per cent in 1986. The impulses from these growth generating sectors is expected to boost overall GDP growth estimated to rise by 4.2 per cent in 1986 or a 1.6 per cent increase in per capita GDP.

13. Inferring from the performance of the main commodity producing sectors (agriculture and industry) in the 1970s in per capita terms, it is obvious that the African LDCs as a group achieved no positive structural changes. Almost all the per capita output in the 1970s came from the services sector since the per capita output of the commodity producing sectors actually declined. The elasticity of manufacturing with respect to the growth of agricultural output fell significantly, from 4.9 in the 1960s to a mere 2.6 in the 1970s, thus indicating the weakening of structural linkages within the commodity sectors. It should be noted, however, that the turn around in agriculture performance in 1985 had a positive impact on agro-industrial-based activities reversing the steep decline in manufacturing output of 6.6 per cent in 1984.

14. The share of domestic savings in GDP rose marginally from 9.5 per cent in 1960 to 10.2 per cent 1970 but declined considerably thereafter to 6.8 per cent in 1979. The per capita savings (1970 prices) was a mere $US 6 in 1979 compared with $US 10 in 1970. These trends imply low saving rates for the African LDCs and, consequently, lower growth in investments. A reversal of these trends has been observed in the first half of the 1980s. Notwithstanding their low per capita income, several African LDCs were able to achieve savings rates above 10 per cent of GDP (Comoros, Malawi, Niger and Togo) and in a few cases exceeding 15 per cent (Botswana, Guinea and Lesotho) during 1980-1984.

15. As in the case of other developing countries, African LDCs' export sturctures is dominated by a few primary commodities which have been hard hit by inelastic demand, collapse of international commodity prices and deteriorating terms of trade. The countries also depend on a wide range of imports for their basic consumption and capital goods requirements. In particular, food and oil imports alone absorb about 40 per cent of total export earnings. In 1970 the volume of export represented about 9.2 per cent of total export of developing Africa declining to 7.2 per cent in 1979. In growth terms, it increased by an average annual rate of 3.8 per cent during the 1970s. On the other

hand, imports, which remained higher than exports throughout the 1970s, increased by an average annual rate of 5.3 per cent. This resulted into a huge gap on the merchandize trade account and with the services account also posting persistent deficits and no substantial positive movement in the capital account, the overall balance of payment deteriorated sharply in the 1970s causing majority of the countries to draw down on foreign reserves as well as resort to commercial borrowings at exorbitant interest rates.

16. The balance of payments problems have further intensified in the 1980s. According to the latest estimates, the merchandize trade balance deficit decreased from $US 5.16 billion in 1982 to $US 2.8 billion in 1984 and thereafter rose to $US 3.6 billion in 1985 and $US 4.5 billion in 1986. Over the same period, the share of these countries in developing countries' trade was a mere 1.3 per cent, while accounting for only 10 per cent of total external trade of developing Africa as a whole. The current account deficit increased from $US 3.5 billion in 1983 to $US 3.96 billion in 1984 and $US 4.99 billion in 1985, which is a partial reflection of increased interest payments. The overall balance-of-payments deteriorated considerably in 1985 with an estimated deficit of $US 1.47 billion signifying extremely acute external payments problems.

17. The external payments problems had been aggravated by mounting external debt obligations. Between 1970-1980, the total outstanding disbursed public external debt of the African LDCs as a group increased from a manageable level of $US 1.9 billion in 1970 to $US 5.1 billion in 1975 and $US 13.3 billion in 1980. In 1982, the total outstanding debt of African LDCs had reached a level of $US 16.1 billion absorbing about 25 per cent of export earnings. ECA preliminary estimates indicate that the external indebtedness of these countries was about $US 28 billion in 1985 and around $US 39 billion in 1986. Although these amounts might seem to be modest in absolute terms as compared to the debts of other developing countries, they continue to exceed 50 per cent of GDP on average. Over 90 per cent of the African LDCs' external debt consist of medium and long-term debts.

18. In the 1970s debt service payments of the African LDCs increased from $US 118.5 million in 1970 to $US 682 million in 1979. In 1984 such payments had further increased to $US 1.3 billion. Those arising from non-concessional debts have continued to form the main part of African LDCs' total debt service payments. Although some debt relief has been provided by some DAC member countries for their ODA debt to majority of the LDCs under UNCTAD Trade and Development Board resolution 165(S-IX), the debt service problem remains critical for all African LDCs. The problem has been exacerbated by the sizeable proportion of non-commercial debt and by the significant increase in multilateral debt which is not under the purview of resolution 165(X-IX) and is subject to multilateral reschedulings. Since the adoption of the SNPA in 1981, a number of LDCs have had recourse to the Paris and London clubs to reschedule their official and commercial debts. Moreover, a number of them have had to ask for several reschedulings in order to cope with their increased debt liabilities. However, the reschedulings have proved to be inadequate as they only provided temporary relief; and the fact that they do not entail a diminution of debt stock meant they eventually added to the

19. Total financial flows to African LDCs during 1970-1979 grew by 25 per cent on average to reach $US 3.62 billion in 1979. On a per capita basis, however, the average amount of financial flows to the group was only half the regional average of $US 36 in 1979. Recent estimates on financial flows to African LDCs indicate that total net disbursement (in current $US) was around $US 5.3 billion in 1984 rising to $US 6.1 billion in 1985 mainly as a result of increases in emergency relief and funding of structural adjustment programmes. Concessional loans and grants amounted to $US 5.8 billion in 1985, up 18 per cent over the 1984 receipts of $US 4.9 billion, while non-concessional flows rose from $US 396 million to $US 415.1 million.

20. On the whole, these financial flows are still far below the aid pledges made by donors in 1981 and fall far short of the annual external financing requirements of $US 8.6 billion envisaged by the SNPA for African LDCs. What is more pressing is the inadequate funding levels of recent facilities established by the IMF and the World Bank and the ongoing negotiations on the replenishment of IDA-8. According to recent information, the Executive Directors (EDs) of the World Bank, had approved a $US 12.4 billion replenishment for IDA-8. The share of sub-Saharan Africa is put at 45-50 per cent or $US 5.58 to $US 6.2 billion over the next three years starting 1 July 1987. 8/

21. This critical resource flow problem hinders the prospects for economic recovery of African LDCs. The prospects for foreign direct investment, export credits and commercial bank lending are extremely dim. This implies that the LDCs would instead continue to depend on bilateral ODA, which unfortunately, is also tied to the adoption of an IMF and/or World Bank programmes whose implementation (e.g. Sierra Leone) has led to serious social and plitical upheavals in these countries.

II. STRUCTURAL ADJUSTMENT AND STABILIZATION PROGRAMMES

A. Objectives and characteristics

22. The poor economic performance of the African LDCs over the years and notably since 1980, their domestic structural limitations and the continuing difficulties associated with the acquisition of external development financing, considerable decline in export earnings and mounting external debt obligation, induced serious internal and external imbalances in these economies. This situation prompted many of the countries to undertake far-reaching policy reforms within the framework of IMF and/or World Bank structural adjustment and stabilization programmes with the aim of restoring equilibrium and to resume high and sustainable growth.

23. As illustrated in annex I, the main problems which necessitated the adoption of adjustment programmes in the African LDCs were: drought and other unfavourable climatic conditions; decline in exports and deteriorating terms of trade; persistent budget and balance-of-payment deficits, mounting external debt obligations and, in general, what has been described as ineffective government policies in the management of these economies.

24. In order to redress the above anomalies, the IMF, in most cases, prescribed reform measures that fall under three broad areas, viz:

In general they include curreny devaluation; ceilings on budgetary deficits; reduction or elimination of subsidies on essential consumer goods; streamlining, liquidating or privatizing unprofitable public enterprises; increasing government revenue through tax reforms, increased user charges for public services, and liberalizing the pricing and marketing mechanizms as an incentive to stimulate production especially in the agricultural sector.

25. While there may be little disagreement as to what policy instruments should form part of structural adjustment and/or stabilization programmes, their appropriateness and adaptability in African LDCs could be viewed in relation to the weight it accords to the resumption of higher growth and the resultant social costs. Indeed, to simultaneously achieve internal and external balance in the LDCs, measures to reduce aggregate demand and policies to "Swith" resources are both required since the former without the latter will result in a decline in output and increased unemployment. Likewise, the measures should be expected to produce their desired effects within a longer time frame in African LDCs because of their structural rigidities and inflexibility to adequately respond to external shock in a relatively short period. Hence, the duration of the adjustment and/or stabilization programmes has to be long enough to permit the necessary reactions to materialize in full.

B. Policy packages of programmes

1. Demand management

26. Demand management is extensively used as a major policy tool in adjustment and stabilization programmes. It typically involves restrictive monetary and fiscal policies intended to rationalize public expenditure, raise government revenues and set limits on bank borrowing by the Government and loss-making public enterprises as a "safety-net" against inflationary pressures.

27. African LDCs adopting these schemes, have had as performance criteria, specific targets for the growth of expenditure, revenue, money supply as well as domestic credit ceilings. Of pivotal importance is the containment of Government expenditure. In the LDCs, the major expenditure cuts are made on public investment outlays which are slashed substantially in favour of recurrent expenditures. This implies that development programmes are either suspended or abandoned completely. Measures widely employed that affect recurrent expenditure are wage restraint, freezing of civil service employment, elimination of subsidies on basic commodities (notably petroleum products and food), and streamlining of public sector operations in order to reduce losses.

28. For example, in Niger, Sierra Leone, Guinea and Togo, expenditure was contained through wage restraint. With the existing very low income levels of majority of the working population in these countries, coupled with rampant inflation, the resultant impact was to further depress an already worsening standard of living. Public enterprises in Mali laid off a sizeable number of employees which worsened the country's unemployment problems.

29. The policy of expenditure restraint has met with little success in most African LDCs. It is extremely difficult to simultaneously restore equilibrium in the balance of payments and budget and reduce inflation in these countries by merely restraining domestic demand because of the inherently long time lag in switching resources to the production of exports and for import replacement and also, the weakness of the financial systems. The economics also suffer from rampant inflation, huge budget deficits, pervasive trade restrictions which constricts their export capacity, heavy external debt burden and bouts of capital flight. Additionally, other underlying factors that dulls the attainment of programme target in this area are: the structural rigidities in most expenditure items; the social sensitivities associated with the provision of basic consumer goods and services, and the Government's traditional role as the major employer in these countries.

30. Despite their narrow revenue base, many African LDCs have accorded a high priority to measures aimed at increasing revenue. For instance, Gambia, Niger, Togo and Uganda have made some progress in tax reforms, including an attempt to widen the tax coverage and raise tax rates. Some countries, however, are still hesitant about an upward revision in tax rates and this, coupled with no improvement in tax collection, had resulted in growth of tax revenue at less than the rise in inflation rates and, is some cases, the rate of currency devaluation. Sudan and Tanzania increased taxes on a wide range of products which increased the cost of imported commodities in domestic currency terms and pushed the inflation rates at staggering double-digit levels in these countries.

31. Credit ceilings are regular feature of demand management policies. Almost all stabilization and adjustment programmes undertaken by African LDCs included targets for bank credit to both public and private sectors. Emphasis has been placed however on the public sector as it is generally believed to be the major contributor to the excess liquidity in the economy and thereby constituted a major instrument for fueling inflationary pressures. Interest rates have also been raised, but, in general, they have remained below inflation rates. These measures had drastically cut down both public and private sector investment at a time when these resources are required for the rehabilitation of key productive sectors.

2. Supply-side policies

32. Supply-side-oriented measures in adjustment programmes are expected to provide a stimulus in developing the production base of the LDCs' economies. These measures inviably include producer price incentives as a means of stimulating agricultural production; streamlining of parastatals and other institutional reforms to shave off waste, and promotion of private sector initiatives especially in export-oriented activities.

33. Under Gamba's adjustment programme which falls within the time frame of the Five-Year Plan (1981/82-85/86), measures were taken to liberalize pricing policies, institutional reforms to raise the efficiency of the public sector and other austerity measures involving expenditure cuts

by the Government. However, Gambia's economic performance is a function of its principal export-groundnut. Hence, exogenous factors related to the impact of the drought and decline in world prices for groundnuts and domestic financial difficulties rendered the measures impotent with programme targets not achieved.

34. Guinea took decisive steps to eliminate price distortions, enhance the efficiency of the public sector and strengthen the private sector, as well as rehabilitation of the banking systems. The results are extremely modest because of the adjustment difficulties of the productive sectors after over two decades of state dominance in all sectors of economic activity. Other countries like Central African Republic, Niger, Sudan, Tanzania, Togo and Uganda, took measures to increase farm prices, in an effort to stimulate production and instituted elaborate structural reforms designed to strengthen the domestic productive base, particularly with respect to increasing production of agricultural export commodities. In these cases, a combination of price incentives and most importantly, favourable weather conditions, yielded positive results as output of cash and food crops increased appreciably in 1985.

3. Exchange rate adjustment

35. The use of devaluation as a policy instrument in IMF supported programmes rests on the premise that by raising the value of production in domestic currency terms, it will encourage more production while at the same time discourage imports by rendering them more costly. It is further argued that this measure can encourage a more rational use of foreign exchange and, given other supply-side incentives, it will help redress the external imbalance.

36. The efficiency of this policy instrument in adjustment programmes in the LDCs is increasingly being questioned. To begin with, devaluation is likely to be an ineffective response to an external payments problem because as primary commodity exporters, the African LDCs are price takers on world markets. In most of these countries, the output of primary products is fairly inelastic and insensitive to changes in export prices. With an inelastic supply of goods to export, their earnings from export could generally be expected to remain unchanged. Besides, expanding exports often requires the reorganization of existing capacity and the identification of new markets.

37. All these adjustment measures take time to produce effects. Financial and technological bottlenecks, such as the chronic shortage of investable funds and skilled manpower and the inadequacy of existing techniques of production, limit African LDCs' ability to cope with rapid expansion. In majority of these countries large overvaluation of currencies had occurred because of protracted inflationary tendencies caused by structural rigidities. As such, devaluation cannot provide a lasting solution in these cases, since it does not deal with the underlying structural factors responsible for the external imbalances. [9]

38. To illustrate the above argument Sudan devalued its currency several times since 1978. In February 1985 the Sudanese pound was devalued by 48 per cent. The latest intervention by the Government was the introduction of market-determined foreign exchange rate through an auction system. Despite these currency depreciations combined with other policy measures under the country's consequetive adjustment programmes, the economy has been in recession for the past four years with chronic budget and balance-of-payments deficits saddled by galloping inflation.

39. In 1980, the Sierra Leone currency was fluctuating within parity of the US dollar. In 1982, the Leone was devalued bringing the exchange rate to Le 2.50 = $US 1.00 and a further devaluation in 1985 established the rate at Le 6 = $US 1. In 1986, the Leone was floated and as of March 1987, the official exchange rate stood at Le 60 = $US 1. These devaluations along with the elimination of subsidies on basic consumer items (especially rice, the staple food and petroleum products) had aggravated further an already acute inflationary pressure. After the floatation, the rate of domestic inflation plummeted from 80 per cent at mid-1986 to 150 per cent or more at the close of 1986. The effects of these measures have also led to widespread civil stife (student unrest) culumnating into a recently abortive coup in Sierra Leone 10/. In fact, a study tracing the impact of devaluation in about 46 non-industrialized countries, including 25 African countries, reveal that only seven African LDCs experienced higher growth in exports and lower growth in imports after devaluation that before it 11/

C. Conditionalities and use of IMF resources

40. Between 1979 and 1985 the external liquidity position of the African LDCs became severely strained. These countries benefitted barely at all from the two principal sources of increasing international liquidity in the 1970s: the enormous increase in the price of gold and the expansion in commercial bank lending. They possessed little gold, and had only limited access to commercial sources of finance because of the stringent conditions attached 12/. Consequently, the LDCs were left in an increasingly vulnerable position especially after the cessation of special drawing right issues, the depletion of the Trust Fund, the failure to reconstitute the low-conditionality oil facility, as well as the stringent conditions attached to the Compensatory Financing Facility and the mounting impediments to expand IMF quotas as rapidly as possible 13/.

41. A fundamental condition for the success of structural adjustment and stabilization programmes in African LDCs is the avilability of adequate external financing to augment foreign exchange resources in the transitional period for immediate import requirements and to supplement funds earmarked for major rehabilitation schemes conceived within the framework of these programmes. As is well known, IMF and World Bank sponsored programmes are supported by use of fund resources under various facilities which gives the receipient country a leverage to seek additional resources from bilateral and other multilateral funding sources which hitherto had insisted on a letter of intent with IMF as a pre-condition for the release of funds.

42. In 1979 and 1980 the African countries' share (including the least developed African countries) of total fund assistance offered under stand-by and extended arrangements rose to 38 per cent from 1 per cent in 1970-1971. As a ratio of the total number of stand-by and extended arrangements approved, Africa's share rose to 53 per cent in 1979 and 1980 from an annual average of 20 per cent in 1970-1978 14/. In the subsequent period, however, the programme relaxation of quota limitations on CFF drawing has in fact been more than compensated for by the domestic rise in both trade flows and in particular, payment imbalances. Consequently, CFF supplied only about one twenty-fifth of the finance which would have been required to offset the impact of the deterioration of sub-Saharan African terms of trade in 1980-1981 15/.

43. What is more worrisome is the tightening up of the conditionalities associated with use of IMF resources, especially the compensatory financing facilities which is of utmost importance to the primary export commodity dependent African LDCs. The limit on the CFF which stood at 25 per cent of quota under the 1963 decision, was raised to 50 per cent of quota in 1966, 75 per cent in 1975, and 100 per cent in 1979. In 1981, the limit on drawings for cereal import excesses was set at 100 per cent of quota (the same as the limit on drawings for export shortfalls) with a joint limit of 125 per cent of quota for cereal import excesses and export shortfalls altogether. In 1985, the conditions under which CFF drawings could be made were changed fundamentally. Access limits were reduced further to 95 per cent of quota in normal circumstances and to 115 per cent in exceptional cases 16/.

44. Of late, the CFF has literally been emasculated and converted into another upper credit tranche. The fact that a country has established (to the satisfaction of the fund) that it has experienced a temporary export shortfall for reasons beyond its control does not provide sufficient basis for CFF drawings. In order to have access to CFF drawings, countries, in advance of submission of their requests, are required to agree to devalue, to take steps to eliminate the budget deficits, to restrict credit and to move towards opening up domestic markets by liberalizing imports and doing away with subsidies. According to the IMF, "the new CFF rules are designed to deal with the present crisis situation in which export shortfall arise almost invariably in conjunction with pressures on the balance of payments resulting from other factors connected with the crisis. It is therefore, impossible under current conditions, to separate the effects of general balance-of-payments difficulties from those of exports shortfalls" 17/.

45. Another problem faced by the LDCs in the use of CFF funds relates to the rules governing payments. Repayments of compensatory financing facility drawings are "made in equal quarterly instalments during the period beginning three years and ending five years after the date of purchase unless the fund approves a different schedule". Such inflexible scheduling poses considerable difficulties for African LDCs. The rational for flexible repayments (linked to good export performance) is not hard to discern. Unless repayments are made by a particular country only when export surpluses occur, they may coincide with further shortfalls and

thus limit the net benefit of drawings from the facility. It would be logical to restructure CFF repayments so that they fall due as the shocks compensated for were overcome rather than on a fixed schedule [18]. Similarly, the Extended Facility established in 1974 to overcome structural balance-of-payment maladjustment has also had its limitations. The deficit in the balance of payments of nearly all African least developed countries is of a structural nature occuring from year to year without spontaneous adjustment. It has been admitted that, "the roots of these problems are deep and go back over a long period time ... and cannot be removed by a wave of an economic wand [19].

46. The difficulties faced by some African LDCs in meeting the fund's performance criteria have led to the suspension of credit lines agreed to under their programmes. Despite the fact that exogenous factors (drought, collapse in world prices of primary commodities, and heavy debt burden; etc.) had played a major role in non-compliance by Gambia, Sudan, and Sierra Leone, the non-fulfilment of conditionality clauses and/or performance criteria had led to the suspension of use of funds agreed to under their programmes. This harsh treatment accorded to African LDCs should not merely be gauged from their theoretical access to credit. At year-end of 1981, 25.8 per cent of the total IMF credit outstanding and fully 47.1 per cent of total commitments were to countries with incomes per capita under $ 300. By 1984, countries with incomes per capita under $ 410 had 9.1 per cent of total IMF credit outstanding and 8 per cent of total commitment under stand-by and extended arrangements. These data in essence suggests that the share accruing to the African least developed countries (which are concentrated under incomes per capita of $ 410) has been grossly inadequate [20].

47. Annex II of this study provides current data on resources earmarked by the IMF under stand-by arrangements and structural adjustment lending in support of on-going adjustment programmes in selected African LDCs. Total resources earmarked is estimated at $ 346.6 million with undrawn balance of $ 203.8 million as at end February, 1986. This amount constitutes only 8 per cent of the external financing requirements of these ten countries for their economic recovery programmes under the UN-PAAERD (1986-1990) [21] estimated at $ 4,283.6 million. As pointed out in section 1 of this paper, external resource flows from bilateral and multilateral funding sources has not matched the development financing requirements of the LDCs under the SNPA. With future prospects in financial aid flows so bleak, the LDCs would experience a further distabilization of their economies if the types of measures recommended are implemented without supplementary financing and other international support measures.

48. Another significant issue is the timing assumption underlying IMF programmes. IMF trigger clause targets usually assume miraculous improvement in monetary and fiscal matters within three months of the submission of a letter of intent. However, in the context of a least developed African country, this is rarely plausible. Ordering, producing, dispatching and delivering imports, sales and collections of revenue or the reduction of bank borrowing takes quite a fairly long period of time. Phasing and sequencing raises similar problems. For instances, irrespective of what nominal price changes are introduced, the supply response of peasants will lag seriously behind until and unless the key constraints on their production (such as seeds, fertilizers, hoes) are made readily available [22].

III. THE IMPACT OF ADJUSTMENT AND STABILIZATION PROGRAMMES ON LONG-TERM ECONOMIC GROWTH AND DEVELOPMENT

49. Adjustment and stabilization programmes supported by use of IMF and/or World Bank resources are designed to produce a major impact on key macro-economic aggregates and the balance of payments. These programmes are also a pre-condition for bilateral and multilateral aid flows to LDCs facing external payments difficulties. The foregoing assessment of the impact of the programme looks at the effects of the policy measures adopted by African LDCs with and without formal agreement with the IMF and/or IBRD.

50. It is usually argued that the implementation of measures in adjustment programmes can pave the way for a steady or lasting growth of the economy concerned. This expectation is not supported by the actual performance of African LDCs at the end of the implementation period. Table 2 below shows that out of 14 countries which have implemented adjustment programmes during the first half of the 1980s, only 3 countries: Guinea-Bissau, Somalia and Uganda, secured a higher positive growth rate in per capita GDP during 1980-1985 compared to the 1970s. Malawi experienced deceleration in per capita growth from 3.1 per cent in 1970-1980 to zero growth in 1980-1985, while the remaining countries achieved negative growth rates.

51. In four cases of non-programme group of countries, the performance was far better in the 1980s than during the previous decade. The highest growth rates per capita was achieved by Botswana (8.5 per cent per annum) and Cape Verde (5.5 per cent) whereas in the programme group, Uganda recorded the highest growth per capita of only 3.4 per cent. These sharp declines in growth are substantially worse if compared to those targeted or forecast by most adjustment programmes. As will be seen below, this is largely explained by an interplay of various forces resulting from the combined effects of measures implemented within the framework of their programmes.

A. Domestic credit ceilings

52. In virtually all the adjustment programmes adopted by African LDCs, they are required to control the rate of domestic credit expansion by the banking system. Consequently, its relationship to economic growth is crucial in assessing the effects of the adjustment programmes. The effect of changes in the rate of domestic credit expansion on economic growth is still a matter of considerable controversy. During the adjustment process a decline in the growth of domestic credit may be associated with a reduction in capacity utilization and a possible rise in unemployment. The size and duration of the deflationary effect depends on the speed with which the initial credit restriction is offset by international reserve movements (current and capital account transactions), the response of domestic inflation to the excess demand for real money balances created by the credit restraint policy; the extent to which the excess demand for money reduces aggregate demand and the effect on private investment of a rise in the cost, or a reduction in the avilability, of credit.

Table 2. Overall GDP growth performance

(annual average growth rate in percentage)

	Total GDP		Per Capita GDP	
	1970-1980	1980-1985	1970-1980	1980-1985
LDCs with adjustment programme				
1. Burundi	3.1	0.7	1.4	-2.1
2. CAR	2.2	0.7	0.0	-1.6
3. Gambia	4.1	1.3	0.6	-0.9
4. Guinea	4.3	1.5	2.2	-0.8
5. Guinea Bissau	2.5	3.5	-1.8	1.6
6. Malawi	6.0	3.2	3.1	0.0
7. Mali	3.8	-0.3	1.6	-3.0
8. Niger	5.0	0.5	2.4	-2.3
9. Sierra Leone	1.8	-1.2	0.3	-2.9
10. Somalia	2.7	3.8	-0.3	0.9
11. Sudan	6.7	0.7	3.6	-2.2
12. Tanzania	4.5	1.2	1.1	-2.2
13. Togo	2.3	-2.4	0.0	-5.2
14. Uganda	-2.4	6.9	-5.2	3.4
LDCs without adjusment programme				
15. Benin	3.4	1.9	0.7	-1.3
16. Botswana	9.0	12.7	4.9	8.5
17. Burkina Faso	4.0	-0.8	2.0	-3.1
18. Cape Verde	0.3	7.5	-0.6	5.5
19. Chad	1.8	-4.9	-0.2	-7.1
20. Comoros	-0.9	4.2	-4.2	1.1
21. Djibouti	3.0	2.2	-3.8	-1.0
22. Ethiopia	2.6	1.3	-0.1	-1.4
23. Eq. Guinea	---	2.0	---	-0.2
24. Lesotho	9.6	0.0	7.1	-2.6
25. Mauritania	1.9	1.2	-0.8	-1.7
26. Rwanda	8.0	2.2	4.5	-1.1
27. Sao Tome & Principe	---	1.6	---	-2.2

53. To judge the effect of a contractionary monetary policy (defined as a reduction in the growth of either domestic credit or the supply of money) on the growth of output in African LDCs, macro-economic models for individual countries would be required to assess such an impact. This is constrained by the lack of funds to undertake country-specific investigations. However, ECA calculations based on available data, as provided in Table 3 below, show the growth rate of domestic bank credit in African LDCs during the pre (1975-1980) and post-adjustment (1980-1985) periods. It is assumed that most of the adjustment measures implemented during 1980-1985 would have yielded positive results by the end of 1985. The figures indicate that in all the countries with adjustment programmes, except Sudan and Uganda, the rate of credit expansion was reduced during the period of adjustment. The growth rate ranged from -2.3 per cent in Togo to 58.3 per cent in Uganda. Similarly those countries without the programmes had also reduced the rate of domestic credit, except in Rwanda.

54. Reducing the rate of inflation is one of the main objectives of this policy instrument in adjustment programmes. In the case of those African LDCs that implemented this measure as part of their programmes, the rate of inflation was higher during the adjustment than in the pre-adjustment period in seven out of ten countries. On the contrary, the rate of inflation in those LDCs without adjustment programmes, the rate was lower in 1980-1985 than in 1975-1980. One would normally expect that a reduction in domestic credit would contribute to deflationary pressures, thereby reducing the rate of inflation. This objective has not been achieved in several African LDCs. One explanation would be that inflation in African LDCs is not only a demand related phenomenon 'determined' only by excess monetary expansion, but also a structural problem as well as the influence of imported inflation.

55. The reduction in the growth of domestic credit in most African LDCs had considerably altered the rate of growth of domestic output. As was pointed out above, only three out of 14 countries that implemented adjustment programmes secured a higher average annual rate of growth in overall output during 1980-1985 compared to the pre-adjustment period 1970-1980 while the others experienced negative variations in the average annual growth rates.

B. Effects of fiscal policies

56. In most African LDCs, fiscal policy occupies a primary role in adjustment programmes because of the relatively large share of the public sector in these economies; its importance for demand management as well as for supply-side oriented policies. Excessive fiscal imbalances are the principal domestic source of balance-of-payment difficulties. In many African LDCs, public sector expenditure had reached unsustainable levels and efforts to mobilize additional budgetary resources through taxation and borrowing from non-bank sources have not proved successful. Hence, the main burden of fiscal adjustment lies often in restraining the growth of total expenditures.

Table 3: Monetary Aggregates and Inflation in LDCs

		Growth of Domestic Credit (per annum)			Inflation Rate (per annum)		
		1975-1980	1980-1985	Variation	1975-1980	1980-1975	Variation
LDCs with adjustment programme							
1.	Burundi	41.7	16.1	-25.6	16.2	8.7	-7.5
2.	CAR	10.7	6.8	-3.9	9.9	12.9	3.0
3.	Gambia	33.6	21.4	-12.2	10.1	13.5	3.4
4.	Guinea	---	---	---	---	---	---
5.	Guinea Bissau	--	---	---	---	---	---
6.	Malawi	24.8	19.0	-5.8	9.6	13.1	3.5
7.	Mali	10.4	6.0	-4.4	---	---	---
8.	Niger	36.9	6.9	-30.0	14.7	7.5	-7.2
9.	Sierra Leone	34.2	30.0	-4.2	13.7	51.8	38.1
10.	Somalia	37.0	24.3	-12.7	22.3	44.9	22.6
11.	Sudan	25.6	26.7	11.0	18.4	31.9	13.5
12.	Tanzania	27.3	18.6	-8.7	14.5	30.2	15.7
13.	Togo	21.8	-2.3	-24.1	10.6	6.6	-4.0
14.	Uganda	32.0	58.3	26.3	---	68.2	---
LDCs without adjutment programme							
15.	Benin	18.8	16.7	-1.9	14.0	12.7	-1.3
16.	Botswana	-31.1	-232.3		11.8	11.6	-0.2
17.	Burkina Faso	27.6	5.1	-22.5	10.7	7.9	-2.8
18.	Cape Verde	---	---	---	---	---	---
19.	Chad	12.3	2.6	-9.7	---	---	---
20.	Comoros	---	---	---	---	---	---
21.	Djibouti	---	---	---	---	---	---
22.	Ethiopia	27.2	11.9	-15.3	15.8	7.6	-8.2
23.	Eq. Guinea	---	---	---	---	---	---
24.	Lesotho	---	26.3	---	13.6	13.5	-0.1
25.	Mauritania	18.4	11.5	-6.9	10.3	9.7	-0.6
26.	Rwanda	-5.9	36.8	42.7	11.4	6.5	-4.9
27.	Sao Tome & Principe	---	---	---	---	---	---

57. As shown in table 4, total Government expenditure as a percentage of GDP declined between 1981 to 1985, in virtually all the countries that had implemented adjustment measures. Total rvenues as a per cent of GDP declined from 24.7 per cent in 1981 to 22.5 per cent in 1985 in Gambia; from 37.9 to 11.8 per cent in Mali, from 17.9 to 7.4 per cent in Sierra Leone and from 27.4 to 25.2 per cent in Togo. It slightly increased only in Malawi, Niger and Tanzania. The overall result is that budgetary deficit as per cent of GDP still remained very high in such countries as the Gambia and Sierra Leone. Countries like Malawi, Mali, Sudan which had realized budgetary surplus in 1981 recorded deficits in 1985 after the adjustment programme, whereas Botswana which did not implement the programme recorded a higher budgetary surplus in 1985 estimated at 13 per cent of GDP.

58. Direct evidence on the relationship between changes in government spending or taxes and economic growth in African LDCs is quite limited. According to the standard Keynesian model, a reduction in government expenditure or an increase in taxation is expected to have a multiplier effect on the level of real income at least in the short-run. But the relationship between fiscal variables and the level of output or the rate of capacity utilization in developing countries is more complicated than this. Khan tried to introduce fiscal variables in a growth model for developing countries and infered that the effect is statistically insignificant 22/. In fact, the effects of fiscal deficits on growth are difficult to establish empirically because of the linkage between fiscal and monetary policy since changes in money supply are, by definition, equal to changes in credit to government and to private sector and variation in international reserves.

59. Governments in most African LDCs rely heavily on domestic bank credit to finance budgetary deficits emanating either from the recurrent or capital accounts. It is argued that fiscal policy can exert influence on output through the effect of public sector investment on private investment. There is, however, a considerable uncertainty as to whether, on balance, public sector investment, despite its crucial role in the capital formation process in African LDCs, raises or lowers private investment, since both have to compete for scarce resources. According to Tun Wai and Wong this relationship in the case of developing countries is not conclusive 23/. Therefore, in the course of reducing the fiscal deficit, the adjustment programmes should weigh carefully the short-term consequences of cuts in public spending against the longer-term effects that would emerge if the reduction falls more heavily on investment expenditures which is of pivotal importance in the development process.

C. Impact of supply-oriented policies

60. Supply-side policies are intended to improve the efficiency of resource allocation and to increase the level or rate of growth of capacity output in the economy. The measures prescribed in structural adjustment and stabilization programmes in this instance are aimed at eliminating distortions in the market mechanizms. However such policies may initially lead to an increased level of unemployment and in some cases a considerable reduction in welfare gains. The main sources of market distortions in African LDCs are embedded in Government pricing and marketing systems, various forms of taxation and subsidies, and high tariffs to protect infant industries. These conditions are well entrenched in the LDCs' economies and attempt to institute reform measures must be gradually phased out over a longer-term frame for the desired results to surface.

Table 4. Government finance

	Total Revenue (as percentage of GDP)		Total Expenditure (as percentage of GDP)		Overall Surplus(+)/Deficit(-) (as percentage of GDP)	
	1981	1985	1981	1985	1981	1985
LDCs with adjustment programme						
1. Burundi	16.36	----	17.47	1.661	-3.49	-3.05
2. CAR	16.33	----	18.06	----	-1.74	----
3. Gambia	24.65	22.51	38.14	43.78	-13.50	-21.27
4. Guinea	----	----	----	----	----	----
5. Guinea Bissau	15.86	----	29.38	----	-13.73	----
6. Malawi	23.18	23.90	35.41	30.50	14.82	-6.60
7. Mali	37.91	10.82	25.89	11.28	12.10	0.00
8. Niger	18.24	18.60	18.24	10.80	-0.02	0.00
9. Sierra Leone	17.95	7.35	31.25	11.98	-13.30	-3.90
10. Somalia	----	16.49	21.56	----	-5.10	----
11. Sudan	19.09	----	----	----	3.40	----
12. Tanzania	10.30	25.68	28.80	22.43	-3.10	-6.20
13. Togo	27.44	25.18	26.85	25.45	-9.4	0.00
14. Uganda	3.05	----	----	-9.66	-9.70	0.00
LDCs without adjustment programme						
15. Benin	14.85	12.26	14.85	12.40	0.00	0.00
16. Botswana	41.51	52.72	44.99	39.70	2.20	13.00
17. Burkina Faso	16.84	16.71	15.79	18.41	1.10	0.00
18. Cape Verde	21.65	----	----	----	----	----
19. Chad	----	----	----	----	----	----
20. Comoros	9.35	----	----	-0.52	-0.50	----
21. Djibouti	32.50	----	----	5.82	5.80	----
22. Ethiopia	21.12	----	----	-3.47	-4.50	----
23. Eq. Guinea	22.22	----	----	-3.47	-.4,50	----
24. Lesotho	35.47	40.53	34.73	28.60	-11.40	-3.30
25. Mauritania	----	22.55	26.33	----	-9.90	----
26. Rwanda	13.47	----	14.76	----	-1.30	----
27. Sao Tome & Principe	----	----	50.00	----	----	----

Source: ECA Secretariat: Survey of Economic and Social Conditions inAfrica, 1985-1986, Addis Ababa (Ethiopia), 17 February 1987 (E/ECA/CM.13/3)

61. To illustrate the above point, in some countries, increases in world energy prices were passed on to consumers through increases in domestic prices of petroleum products while others provided a budget line for oil subsidies. All African LDCs are heavily dependent on imported energy, especially crude oil, for industrial and other uses. The elimination of subsidies on oil can in itself introduce unmanageable distortions in domestic prices of all locally produced goods. In Sierra Leone such a measure had led to an increase in the pump-price of a gallon of petrol from a pre-programme rate of Le 3 to a current price of about Le 60. The elemination of subsidies on rice (the staple food) had caused the price of a 50 kg bag of rice to rise from an official price of Le 175 to about Le 400, in an economy where the average worker earns less than Le 200 per month.

62. On the other hand, agricultural pricing policies, have had a positive impact on the level of agricultural production. According to estimates on price elasticities of supply of selected primary commodities, (Table 5 below), the long-run price responsiveness is quite high for cash crops such as cocoa, coffee and rubber. By and large, these results suggest that pricing policies to increase the return to producers would tend to stimulate production of major cash crops in the longer run. However, structural improvement in supply capacity through price incentives in African LDCs should aim at achieving an appropriate balance between crops for domestic consumption and crops for export as well as to encourage small-holder farmers to increase productivity.

Table 5: Estimate of long-run elasticities of supply of selected primary commodities

Commodity	UNCTAD (1974)	Bond (1983)*
Cocoa	0.20	0.79
Coffee	0.20	1.33
Groundnuts	-	0.52
Palm kernels	0.30	0.25
Palm oil	0.30	0.49
Cotton	0.40	0.50
Sisal	0.50	0.62
Rubber	0.30	0.99
Tobacco	-	0.65
Timber	0.50	-

Source: UNCTAD "Survey of commodity demand and supply elasticities". Research memornadum No. 48 (Geneva, March 1974).

* M.I. Bond: "Agricultural responses to prices in sub-Saharan African countries" Draft papers IMF, vol. 30, (Dec. 1983) pp. 703-726.

63. Another relevant issue is the rate at which the potential supply of aggregate output can be expanded. This depends, among other things, on decisions about the proportion of current real output to be invested in productive capital rather than consumed. The appropriate supply-side policies are those that favour private saving as a means of increasing private capital formation. Policies to foster the expansion of savings in adjustment programmes so far implemented in African LDCs focus primarily on increasing the return on savings. A number of the countries imposed ceilings and other restrictions on the nominal interest rates offered on saving deposits by the banking system. Under inflationary conditions, these ceilings may imply low or negative real interest rates on financial savings and undermine the Governments' efforts in mobilizing domestic resources.

64. In African LDCs domestic savings are less sensitive to automatic adjustment in interest rates because of the very weak domestic financial markets and the very slow growth of per capita income. An increase in the ratio of investment to national income, would ceteris paribus have a positive impact on overall output. But, as was pointed out, adjustment programmes in African LDCs, require cuts in public expenditure, al beit, investments, as part of the demand management measures.

D. The impact of devaluation

65. Devaluation affects both domestic absorption (demand) and domestic supply since it is simultaneously an expenditure - switching - and expenditure reducing policy. Exchange rate devaluation is one of the most widely used policy instruments in adjustment and stabilization programmes. As has been argued earlier, devaluation is an ineffective response to external payments problems of African LDCs, because as primary commodity exporters, they are price takers on world markets. Output of primary products tend to be fairly inelastic and insensitive to changes in export prices and hence export earnings should be expected to remain either unchanged or decline drastically in foreign currency terms after devaluation.

66. Table 6 gives the growth performance of exports and imports in African LDCs with and without adjustment programmes. Six out of twelve countries (Burundi, Central African Republic, Mali Niger, Tanzania, and Togo) had a nominal growth rate of exports during 1980-1985 less than in 1975-1980, whereas, Gambia, Malawi, Sierra Leone, Somalia, Sudan and Uganda recorded higher export growth rates. In constrast, the rate of growth of imports were reduced in most African LDCs except in Central African Republic and Uganda. In Sudan, imports stagnated. Only six countries were able to reduce their trade deficit. Most of the African LDCs without these programmes registered positive growth rates of exports and all, except Chad, reduced the growth of imports.

Table 6. Export and import growth rates and trade balance (in percentage)

		Growth rate of exports of goods and services per consumer (current prices)			Growth rate of imports of goods and services per annum (current prices)			Trade deficit (-) or surplus (+) (in millions of local currency)	
		1975-1980	1980 1985	Variation	1975-1980	1980-1985	Variation	1980	1985
A.	LDCs with adjustment programme								
1.	Burundi	19.3	16.7	-2.6	24.1	7.6	-16.5	- 11867	-12298
2.	Central Afr. Rep.	19.2	11.3	-7.9	3.1	22.4	19.3	-43.2	-31.5
3.	Gambia	-8.3	25.8	34.1	21.4	4.9	-16.5	-230.5	-189.2
4.	Guinea	...	...	...	...	...	...	...	...
5.	Guinea-Bissau	...	...	...	...	...	...	...	...
6.	Malawi	9.9	12.7	2.8	9.7	7.0	-2.7	-140.4	-93.4
7.	Mali	30.4	12.3	-18.1	19.8	11.9	-7.9	-26.2	-86.1
8.	Niger	28.9	4.8	-24.1	30.7	6.2	-24.5	-69.0	-89.1
9.	Sierra Leone	5.7	15.4	9.7	21.7	12.0	-9.7	230.1	-139.6
10.	Somalia	8.4	33.8	25.4	17.6	15.1	-2.5	-1355.6	-848.9
11.	Sudan	12.2	25.5	13.3	17.0	17.2	0.2	-516.9	-894.4
12.	Tanzania	8.7	3.4	-5.3	12.5	11.7	-0.8	61160	-13002
13.	Togo	21.5	4.1	-17.4	25.6	0.5	-25.1	-45072	-34872
14.	Uganda	6.1	271.4	265.3	21.2	242.5	221.3	-668.0	27245
B.	LDCs without adjustment programme								
15.	Benin	17.4	34.9	17.5	24.4	9.3	-15.1	-91.6	-99.3
16.	Botswana	49.2	0.9	-48.3	27.5	15.9	-11.6	-299.5	245.9
17.	Burkina Faso	15.3	16.3	1.0	18.5	5.1	-13.4	-56.5	-57.2
18.	Cape Verde	...	...	...	...	...	...	...	...
19.	Chad	8.2	26.5	18.3	-11.3	48.1	59.4	-53.4	-26239
20.	Comoros	...	...	...	...	...	...	...	...
21.	Djibouti	...	...	...	...	...	...	...	...
22.	Ethiopia	12.2	-1.8	-14.0	13.0	6.2	-6.8	-442	-1122
23.	Eq. Guinea	...	...	...	...	...	...	...	...
24.	Lesotho	37.4	-2.8	-35.2	25.2	19.1	-6.1	-315.5	-684.5
25.	Mauritania	1.8	26.5	24.7	13.6	6.3	-7.3	-4203	11081
26.	Rwanda	21.7	8.8	-12.9	19.7	5.4	-14.3	-12214	-13376
27.	Sao Tome and Principe	...	...	...	...	...	...	...	...

Source: IMF, op. cit.

67. The main focus of exchange rate policies is to create conditions for the revival of export growth. However, actual data show that during the period 1980-1985, the ratio of exports to GDP fell in most African LDCs as compared to the previous period 1975-1980. Despite a series of currency devaluation in Gambia, Somalia, Sudan, Tanzania, Burkina Faso, exports have not increased. On the other hand, countries like Botswana, Niger, Rwanda, Burundi, Ethiopia, Burkina Faso recorded a higher increase in their import/GDP ratio in the 1980-1985 compared to 1975-1980. Thus the efforts to overcome the balance-of-payments difficulties in LDCs have met with extremely limited success only in a few countries.

E. Decline in resource flows

68. In recent years, the sharp decline in resource flow has created difficulties in successfully implementing adjustment programmes in African LDCs. It is argued that the attainment of performance criteria sanctions the credibility of the concerned countries which is a necessary condition for increased aid flows including the possibility of rescheduling of debts so as to release resources for development financing. The need for substantial inflow of official development assistance is of singular importance to African LDCs which are facing extremely difficult balance-of-payment problems. But, as was demonstrated in section 1 of this study, there has not been any appreciable increase in resources flows to these countries especially during the first half of the 1980s when many of them were implementing adjustment and stabilization programmes.

69. As shown in table 7 below, the expectations of the countries with programmes have been disappointing. Total per capita net resources receipt from all sources declined, on average, from $US 48.6 in 1980-1982 to $US 39.6 in 1983-1985. Concessional loans in per capita terms decreased from $US 40.7 to $US 37.9 in the same period for those countries with adjustment programmes. In contrast, total per capita aid flows increased on average, for non-programme group of the LDCs, from $US 81.5 to $US 98.3 and concessional loans per capita from $US 76.5 to $US 86.8. Thus, the contention that adjustment and stabilization programmes generate increased inflow of resources has not been supported by the evidence at hand.

Table 7. Per capita net resource receipts of African LDCs

(US dollars)

	Total (average)		Concessional (average)	
	1980-82	1983-85	1980-82	1983-85
LDCs with adjustment programme				
1. Burundi	34.0	36.0	30.1	31.0
2. CAR	47.3	43.9	43.0	41.9
3. Gambia	108.8	73.4	87.9	67.4
4. Guinea	21.0	18.0	15.6	18.1
5. Guinea Bissau	85.1	74.7	77.9	69.2
6. Malawi	27.9	18.6	21.8	19.2
7. Mali	33.1	39.1	32.5	39.3
8. Niger	55.8	36.7	37.8	36.9
9. Sierra Leone	25.0	19.6	24.4	18.4
10. Somalia	105.5	71.3	88.6	70.7
11. Sudan	40.4	47.4	37.1	43.7
12. Tanzania	41.8	26.7	35.1	25.6
13. Togo	41.4	37.4	29.0	36.8
14. Uganda	11.3	12.2	9.4	10.9
Average	65.8	39.6	40.7	37.9
LDCs without adjustment programme				
15. Benin	65.8	39.7	23.7	24.7
16. Botswana	98.7	146.4	106.4	94.5
17. Burkina Faso	37.5	28.2	34.2	28.0
18. Cape Verfe	200.3	214.3	191.6	208.3
19. Chad	10.7	26.4	11.4	26.6
20. Comoros	110.0	106.6	104.7	101.6
21. Djibout	201.9	293.8	199.2	245.1
22. Ethiopia	8.5	15.6	8.2	14.5
23. Eq. Guinea	31.3	58.6	33.9	55.0
24. Lesotho	72.5	73.5	71.0	68.4
25. Mauritania	118.0	114.4	105.9	102.3
26. Rwanda	29.0	29.1	28.8	28.4
27. Sao Tome & Principe	76.2	131.4	76.2	131.4
Average	81.5	98.3	76.5	86.8

Source: UNCTAD secretariat.

IV. SUMMARY AND CONCLUSION

70. The external payments problems of the African LDCs in the 1970s and during the first half of the 1980s were structural, aggravated by exogeneous factors: the two oil price hikes in 1973-1974 and 1979-1980, protectionist measures of industrial countries, deteriorating terms of trade, and the protracted world recession. However, Fund-supported programmes in African LDCs continue to be based on the premise that the countries' payments deficit is due to excessive money supply and over-valued currency, without giving due consideration to the consequences on long-term economic growth development.

71. As was mentioned earlier, fiscal policies in adjustment and stabilization programmes emphasize reduction in the government deficit without distinguishing between different types of expenditure and their impact on the productivity of the economy, and cuts have often been made to reduce the deficit in the short run without taking account of the possible effects on the medium-term growth capacity of the economy. The reduction in the growth of domestic credit had considerably decreased capacity output in most of the countries because of severe investment expenditure cuts. Inflation is still rampant in the LDCs implying that the objective to reduce the acceleration in the rate of inflation has not been achieved since the measures did not address the inherent structural problems as well as the influence of imported inflation.

72. The efficacy of devaluation as a policy instrument in adjustment and stabilization programmes in African LDCs is also questioned on the grounds that these countries are exporters of primary commodities whose prices are determined in international commodities markets. Hence, as price takers, their export earnings are likely to remain at pre-devaluation levels or, in most cases, reduced drastically in foreign currency terms. On the other hand, devaluation intensifies the inflationary tendencies in these countries by making imports expensive and reducing capacity utilization in import-dependent productive sectors.

73. In summary, adjustment and stabilization programmes sponsored by IMF operate in the short run. There are cases where some degree of adjustment may be effected in a short period. However, the imbalances which lead African LDCs to seek IMF assistance, are large and persistent, and the remedies applied should be concerned with long-term structural change. Additionally, current adjustment programmes are based on policies that tend to produce general effects on the economy to be effective, while the adjustment process needs to be based on more selective instruments in countries where the primary source of economic difficulty is sectoral rather than global.

74. Hence, on the basis of the findings of this study, it is suggested that Fund-supported programmes in African LDCs would have to be carefully designed dealing with the main factors contributing to the deterioration in the payments position. Among other things, this would entail the liberalization of the Compensatory Financing Facility (CFF) to take into account the particular circumstances of the LDCs. For instance, if drawings from the CFF have to

continue to be tied to quotas, then the existing limit on cumulative drawings has to be raised appreciably. In addition, if the facility is also to support deterioration in payments for temporary or reversible causes other than shortfalls in commodity export earnings, the ceiling would have to be fixed even higher. In general, in view of the enormous resource requirements of the African LDCs, donors should endeavour to provide adequate supplementary financing in support of these adjustment and stabilization programmes.

75. There is an urgent need for a richer mix of policies other than demand management and exchange rate depreciation. This is because country circumstances vary considerably for any standard approach to be appropriate. There should also be a move away from emphasis on quantified performance criteria and concentrate instead on the economic environment within which programmes are being implemented. Finally, these programmes should provide for longer periods of adjustment and take explicit account of the distributional consequences on the economies of the African LDCs.

FOOTNOTES

1/ Benin, Botswana, Burkina Faso, Burundi, Cape Verde, the Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Mauritania, the Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Somalia, the Sudan, the United Republic of Tanzania, Togo and Uganda.

2/ See: "Regional evaluation and assessment of the implementation of the Substantial New Programme of Action in African least developed countries, 1981-1984" E/ECA/CM.11/36 of 25 February 1985. Also see "Progress towards the implementation of the Substantial New Programme of Action in African least developed countries", E/ECA/LDCs.7/EXP.6/3 of 18 March 1987.

3/ Burundi, the Central African Republic, the Gambia, Guinea-Bissau, Malawi, Mali, Mauritania, the Niger, Sierra Leone, Somalia, the Sudan, the United Republic of Tanzania, Togo and Uganda.

4/ See "Report of the sixth meeting of the Conference of Ministers of African least developed countries", E/ECA/CM.12/38 of 18 April 1985, para.54.

5/ Benin, Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Lesotho, Malawi, Mali, the Niger, Rwanda, uganda.

6/ Cape Verde, Comoros and Sao Tome and Principe.

7/ See "Domestic problems and economic policies in African least developed countries" - A/CONF.104/7/Add.1 (Part II) of 25 May 1981.

8/ See "Report of the United Nations Conference on the least developed countries held in Paris, 1-14 September 1981" A/CONF.104/22/Rev.1.

9/ N. Kaldor, "The role of devaluation in the adjustment of balance-of-payments deficits", prepared for the UNCTAD secretariat, April, 1982, page 11 (Mimeograph).

10/ See: West Africa, 30 March, 1987.

11/ Bhaghwati, A and Onitsunka, "Export and import responses to devaluation, experience of the non-industrial countries in the 1960s", IMF staff paper vol. 21, July 1984.

12/ Economic Commission for Africa, The balance-of-payments problems of developing Africa: A reassessment (E/ECA/CM.11/8) August 1984.

13/ G.K. Helleiner, "Aid and liquidity: The neglect of sub-Saharan Africa and others of the poorest in the emerging International Monetary System", Journal of Development planning No. 15, 1985 p. 76.

14/ IMF survey 4 May 1981, p. 137-139.

15/ John Williamson, "The lending policies of the International Monetary Fund", Institute for International Economics, Policy analysis in international economies, No. 1, August (1982).

16/ Compensatory financing limits are now at 83 per cent of quota or 105 per cent for export shortfalls and increased cereal import costs together.

17/ Sidney Dell, "The fifth credit tranche", World Development, vol. 13, No. 2 p. 245-249, 1985.

18/ Stephany Griffith-Jones, "Compensatory financing facility: A review of its operation and prospects for its implementation, UNCTAD/MFD/TA/22, January 1983 prepared for the UNCTAD secretariat (mimeographed), and John Williamson, American economic associations, papers and proceedings, May 1983 pp. 354-358.

19/ De Larosiere, "The need for international economic adjustment: The role of the IMF", excerpts from an address delivered on March 4, 1982, before the annual meeting of the French-American Chamber of Commerce, Minneapolis, Minnesota.

20/ Helleiner, op.cit., p.78.

21/ "Progress towards the implementation of the Substantial New Programme of Action in African Least Developed Countries (Report by ECA secretariat)" - E/ECA/LDCs.7/EXP.6/3, 18 March 1987.

22/ Reginald Green, "IMF stabilization and structural adjustment in sub-Saharan Africa: are they technically compatible, IDS Bulletin, July 1985, vol. 16, No. 3, p. 66.

23/ Tun Wai U and C. Wong "Determinants of private investment in developing countries" Journal of Development Studies (London) vol. 19 (Oct. 1982), pp. 19-36.

Main problems calling for adjustment policies adopted by selected African LDCs

	Drought or unfavourable weather	Exports and terms of trade	Public finance	Balance of payments	Economic manage-ment	External debt
Botswana	x					
Central African Republic		x	x	x		
Gambia	x	x	x	x		
Guinea	x	x	x	x	x	x
Malawi	x	x	x	x		
Mali	x		x	x		x
Niger		x	x		x	
Sierra Leone		x	x	x		x
Somalia	x	x	x	x		
Sudan		x	x	x	x	x
Togo	x	x				x
Uganda			x	x	x	x
Tanzania	x	x	x	x	x	x

Source: Survey of Economic and Social Conditions in Africa 1982-1983 - E/ECA/CM.10/4, 9 March 1984, pages 140-142.

Adjustment policies adopted by selected African LDCs

	Exchange rate	Budgetary expenditure	Budgetary revenue	Interest rates	Credit ceilings	Debt management
Botswana	x					
Central African Republic		x	x			
Gambia	x	x	x		x	
Guinea		x		x		
Malawi	x			x		
Mali		x	x			
Niger		x				
Sierra Leone	x	x	x			
Somalia	x	x		x		
Sudan	x	x	x		x	x
Togo		x				x
Uganda	x	x	x	x	x	
Tanzania	x					x

Source: E/ECA/CM.10/4, 9 March 1984.

Areas of structural change in adjustment policies adopted by selected African LDCs

	Prices	Private sector	Production	Public corpora-tions	Taxation	Institutions
Botswana						
Central African Republic	x		x	x		
Gambia	x		x	x	x	x
Guinea	x	x		x		x
Malawi					x	
Mali		x	x	x		
Niger	x			x	x	x
Sierra Leone	x		x			x
Somalia			x	x		
Sudan	x	x	x	x	x	x
Togo	x			x	x	x
Uganda	x		x			
Tanzania	x					

Source: Ibid; E/ECA/CM.10/4, 9 March 1984.

Stand-by and structural adjustment facility (SAF) benefiting African LDCs

(thousands SDRs)

Member	Date of arrangement	Expiration date	Total amount	Undrawn balance
Stand-by arrangement			259 500	153 720
Burundi	8 Aug. 1986	31 Mar. 1988	21 000	21 000
Central African Republic	23 Sept. 1985	22 Mar. 1987	15 000	7 500
Gambia	17 Sept. 1986	16 Oct. 1987	5 130	4 100
Guinea	3 Feb. 1986	2 Mar. 1987	33 000	18 000
Mali	8 Nov. 1985	31 Mar. 1987	22 860	6 560
Maritania	26 Apr. 1986	25 Apr. 1987	12 000	2 700
Niger	5 Dec. 1986	4 Dec. 1987	10 110	8 090
Sierra Leone	14 Nov. 1986	13 Nov. 1987	23 160	15 160
Tanzania	28 Aug. 1986	27 Feb. 1988	64 200	31 210
Togo	9 June 1986	8 Apr. 1988	23 040	14 400
SAF arrangements			87 091	50 031
Burundi	1 Aug. 1986	7 Aug. 1989	20 069	11 529
Gambia	17 Sept. 1986	16 Sept. 1989	8 037	4 617
Mauritania	22 Sept. 1986	21 Sept. 1989	15 933	9 153
Niger	17 Nov. 1986	16 Nov. 1989	15 839	9 099
Sierra Leone	14 Nov. 1986	13 Nov. 1989	27 213	15 633
Grand Total			346 591	203 751

Source: Compiled from IMF Survey, 9 March 1987, p. 76.