African Alternative Framework
to Structural Adjustment Programmes for
Socio-Economic Recovery and Transformation

A POPULAR VERSION
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A Popular Version

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Introduction:
Getting to the People

Of the many books and documents that have been written about Africa, only very few ever reach the common man and fewer have ever had, as their focus, the concerns of the ordinary African. More often than not, such books or documents are written in languages or in academic styles which are not always easy to understand. And they are not easily available or affordable.

This popular version of the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP), is intended to bring the message of AAF-SAP to the African people whatever their station in life: students, youths, workers, women, parliamentarians, politicians and even policy makers. It is also intended to get the people of Africa to know about and understand some of the economic policy issues that affect their day-to-day lives, with a view to their taking appropriate actions and seizing the initiative to be in command of their socio-economic destiny.

Of course, as we look back at the 1980s, very few of us can doubt that we were, in one way or another, affected by the Structural Adjustment Programmes (SAPS) that many of our countries have been pursuing. In some cases the impact of such programmes has led to riots because of the tremendous suffering they impose on the people: loss of jobs, reduction in social services, impossible increases in prices, generalised poverty and the constant threat of destabilising society as a whole. Indeed, these programmes continue to be formulated and implemented as if people do not matter. As such these programmes have failed to recognise that all of us - poor or rich, young or old, educated or not - are all part of the social and economic reality in our countries.

In the face of such a disappointment, it was natural that the Economic Commission for Africa (ECA) set out to find an alternative and a people-centered way of getting economic policies right. In this, the ECA was convinced that there has to be a way for African countries to grow and develop rather than to decline and decay. There has to
be a way for the African people to enjoy a better life rather than to live in permanent poverty and misery. And there has to be a way for the African youths to hope for a better future rather than to despair. No less important is the imperative necessity to put in place socio-economic policies that will not be divisive and that will not always undermine the stability of our society. All of us, the people and governments of Africa and our development partners need to take immediate action to ensure that we establish a dynamic and democratic development process.

AAF-SAP provides the way. By bringing out a popular version, it is the earnest hope of ECA that the majority of our people will study the arguments and policy proposals contained in AAF-SAP for implementation. Already AAF-SAP has received the support and endorsement of African leaders and governments, of the international community and, in particular, of the entire General Assembly of the United Nations. It is now left to the people of Africa and their organisations to mobilise for its implementation at all levels.

I, therefore, commend the popular version of AAF-SAP to all who care about solving Africa's socio-economic problems and to all those who are ready to take a step and do something. It is my earnest hope that the people of Africa will seize the initiative before it is too late.

Adebayo-Adedeji

UN Under Secretary-General and Executive Secretary of ECA
Chapter One
A Continent In Crisis

1. The whole world knows that, by all accounts, the African nations and their 650 million people have suffered a bitter and persistent social and economic crisis especially during the 1980s.

2. Some of the facts which illustrate Africa's unfortunate plight are:

(i) Africa has the largest number of the poorest countries in the world. Out of the 42 nations in the world that are known as the least developed countries (LDCs) which are the poorest among the poor - the wretched of the earth - Africa has 29 countries. By comparison, Asia and the Pacific have 12 LDCs and Latin America has only 1 LDC. Unfortunately, the number of African LDCs is even going to increase as more countries apply to be included in the group;

(ii) Africa is the only continent where economic production per person has declined consistently throughout the 1980s. Per capita output fell from $752 in 1980 to $613 in 1988 (in constant 1980 US dollars). A limited range of goods and services are produced in Africa, and the volume of these goods and services is shrinking. The quality is also falling;

(iii) Africa's agriculture depends on primitive technology and is virtually totally dependent on rainfall. When it does not rain there is drought and famine. When it rains too much there are floods and famine again.

(iv) African industry is overly dependent on imports of capital, skilled labour, technology and spare parts, and entrepreneurial and management skills are scarce; and,

(v) Africa contains many small States that have very small populations.

3. In reality, the African socio-economic crisis is multi-dimensional. The five most prominent of these can be labelled as follows:
(a) Very low level of productivity in almost all sectors of the African economy;
(b) The social crisis which threatens a systemic collapse of the social fabric especially with respect to education, health, shelter, employment, etc.;
(c) The crisis caused by unfavourable external economic environment;
(d) The crisis of governance and democracy which has marginalized the people and has led to a crisis of confidence between the government and the governed;
(e) The crisis of economic management;
(f) The crisis of effective political unity.

4. What, one must ask, is the following question: **What are the underlying causes of Africa's social and economic crisis?** This question is easier posed than answered. But answered it must be, otherwise we will never know how Africa gets out of the crisis and gets on with the business of development for the benefit of its suffering people.

5. The very structure of the African economy is the primary underlying cause of its persistent crisis. It is a structure that obliges Africa to keep producing commodities it does not need because its people consume very little of such commodities while it depends on other people for the production of its own need. It is a structure of dependency rather than self-reliance. It is a structure that is more import-export oriented rather than production oriented. The other main features of the African economy are:
(a) The predominance of subsistence activities with people producing just enough to survive on their own;
(b) A base for producing goods that is very small, that has no linkages within it, that uses backward and unscientific methods and which has no modern machinery or technology;
(c) The existence of a large informal sector;
(d) The degraded environment with large chunks of land having become desolate and unusable for cultivation of crops or rearing of livestock;

(e) Lop-sided development due to the urban bias of public policies generally and development policies in particular thus permanently leaving the rural areas in poverty and with underdeveloped roads, water supply, electricity, posts and telecommunications, etc.;

(f) The fragmentation of the African economy in small markets;

(g) The openness and excessive dependence of the economies including dependence on external factor inputs; and,

(h) Weak institutional capabilities.

6. The social structures also fundamentally contribute to Africa’s persistent crisis. First, Africa has very distinct and deeply rooted types of social differentiations. These relate to linguistic affinities, gender, ancestral origins or blood relations such as those that result in ethnic groups or nationalities or clans. This has many implications on social mobilization for development; on efficient and objective economic management; on the proper functioning of national institutions; and, on political stability in general.

7. The political environment is also a major cause of the African problems. Basic rights, individual freedom and democratic participation are often lacking in African countries. Yet, without them people feel alienated and are unable to devote their energies to development and productivity. Indeed, in a place where injustices are the norm rather than the exceptions, it is almost impossible to expect a momentum of progress. What you often find is disillusion, lethargy, repression, civil strife and an environment where fear and man’s inhumanity against man prevail. Given such circumstances, people do not work hard or produce optimally and, naturally if people do not work hard, the pace of development, if any, is at snail’s speed.

8. The combination of the social and political weaknesses has also led to an acute crisis of skills and management in Africa. This has led to a breakdown of institutions, closure of industries and a failure of others to maintain profitability. Lack of accountability has been a major problem for Africa. Sometimes they have acted under duress to implement certain decisions independent of sound management
principles. Policy continuity is more often than not abandoned as even the appointment of managers and executives has not always been motivated by efficiency and merit but more often by political considerations. Self-enrichment at the cost of development has become a cancer that is eating away at the resources that otherwise would have been invested in development.

9. At first glance, simple cause-and-effect governs the relation between declining economic performance and declining standards of living: the former brings about the latter. But when looked at in the context of efforts to revitalize the continent, it becomes clear that causes and effects travel a two-way street. In a world economy that places a premium on technology and information processing, only a healthy, secure and literate population can engineer an economic upturn. Desperate living conditions fuel both social unrest and the internal strife and civil wars that we identified earlier as a major cause of social and economic crises in a number of African countries. These, in turn, discourage outside investment, cripple domestic productivity and erode the will of citizens to work for a better future. In short, government initiative, private investment and assistance from overseas will be unable to establish the conditions for sustained economic growth unless there is an improvement in the standard of living of the African people.

10. But not only have the African people faced terrible and widespread hardships and suffering, the whole economic setting has been put out of gear. Let us, for example, take agriculture. Once net exporters of food, African countries now have difficulty feeding their own people. Harvests per capita fell by about 10 per cent over the course of the 1980s. About one-third of Africa’s people rely wholly or in part on imported food, in the process exhausting scarce foreign exchange holdings or having to depend on food aid. Modern agricultural techniques are now applied mostly to export crops. The tremendous contribution of African women to the raising and harvesting of crops is diminished by their meagre share of land, capital, credit and technology and by social and cultural customs and taboos that marginalize their role in the economy. Low-technology economies that depend on natural resources are exhausting the land through overgrazing, cutting down trees for household fuel, and farming techniques with long-term disadvantages.
11. Consider also the external trade sector. With a land mass second among continents only to Asia and a 12 per cent share of the world’s population (a share that will grow rapidly in the years to come), Africa accounts for a mere 3 per cent of world trade. This share is also declining rapidly. Too many African countries depend on too few export items for the bulk of their foreign trade. Most exports are minerals and agricultural commodities, and the world market prices of many of these raw and semi-processed materials fell sharply in the 1980s. Unfortunately they are also unlikely to recover significantly in the foreseeable future.

12. What all this adds up to is the fact that even if production of traditional export items could be increased, there will be no instant solution for African economies. In the first place, flooding the markets with increased exports would, under a perverse trick of supply-and-demand, lower the prices of these items. Secondly, most industrialized nations, the major customers for African raw materials, protect their own miners and farmers by putting a ceiling on imported materials or fencing them out with protective tariffs.

13. Clearly then emergency borrowing to fend off the economic shocks of the 1980s did not and cannot promise to solve or stabilize the problems of African countries. It did, on the very contrary, lead to rapidly growing debt. Debt payments to the International Monetary Fund (IMF), the major agent of economic development loans to Africa, now outstrip new loans and grants coming in. In 1986, 45 sub-Saharan African countries paid out $895 million more to the IMF than they took in. The net outflow in 1989 was $657 million. So, African countries are just borrowing to pay out - a situation that is obviously unsustainable.
Chapter Two  
What Africa Really Needs

14. It is clear that simply sopping up red ink by cutting government spending and balancing imports and exports will not deal with African underlying problems. These problems, being structural rather than merely financial, have to be dealt with structurally. They are not purely economistic. They are political and social as well. They must therefore be confronted as a whole.

15. But the realization that Africa has to tackle the root-causes of the underdevelopment problem is not new or recent. Even before the shock waves of the 1980s had struck, African leaders had seen the need for a long-term strategy for structural transformation. Under the auspices of the Organization of African Unity (OAU) and the Economic Commission for Africa (ECA), a conference of Heads of State and Government was held in Lagos, Nigeria in April 1980. At that conference, African leaders adopted the *Lagos Plan of Action for the Economic Development of Africa, 1980-2000* containing the blueprint for transforming the African economy. Up to this day, this blueprint contains a valid analysis and the right prescriptions for African countries to transform their economies.

16. The central principle of the Lagos Plan is that the worth of economic development is measured only by the well-being of the people. No programme of adjustment or of development makes sense if it makes people indefinitely more miserable. Africa's central objective, therefore, is the alleviation of poverty and general improvement in living standards of the people. A second objective, essential to meeting the first, is increased production through expanded and diversified productive capacities that can be sustained over a long period of time and which will not unduly suffer the shocks of outside events. The third goal is self-reliance — both national and collective — to be achieved by creating strong national economies and, a dynamic African regional economy through regional and continent-wide economic co-operation and integration.

17. Let us look more closely at each of these objectives and throw light on how they help in overcoming the abject poverty and the feeling
of helplessness in most of the African countries. We shall also try to see what each objective entails.

18. First, alleviating poverty and raising the welfare of the people means, in essence, that people including the poor (i.e., those whose income, in terms of daily or yearly earnings, is so low that they cannot even meet their essential needs) and the vulnerable (i.e., those who face special hardships or problems such as children, pregnant women, the aged, etc.) have access to the goods and services that are essential for their survival and well-being. This access means that the goods are available in shops and go-downs and that people have enough money to buy them whenever they need them. Services such as education, health and transport must also be available and affordable. The economic empowerment of the people is an imperative condition for alleviating poverty and raising standards of living.

19. But what are those critical goods and services that Africa has to focus on as fundamental objectives to improve the welfare of the African people. Of course, we all know that anybody on an empty stomach cannot be happy or productive. As such, the Lagos Plan of Action had food self-sufficiency on top of the African development agenda. The other elements of the LPA agenda include potable water, shelter, primary health care, education and cheap transport. If the African people can have these in sufficient quantity and quality, then we could say that Africa has made a start.

20. To attain the objective of providing such essential goods and services to the people entails other more specific aims. The most prominent of these are:

(a) Access of the people, especially the presently deprived poor, to the basic factors of production particularly land and investment capital;

(b) Creation of employment opportunities so that people get the means to pay for what they require;

(c) Improving the pattern of distribution of national wealth so that the majority of the people have a just and fair share of a growing national cake rather than for the few to run away with the whole cake;
(d) Changing the food consumption patterns so that the African people eat more of what they can grow on the continent (e.g., maize, millet and sorghum) and less of what cannot be easily grown on African soils (e.g., wheat, rice, barley and oats);

(e) Internal mass production of essential consumer manufactured goods and matching the people’s consumption towards these domestically produced goods; and,

(f) Maintaining the natural environment so that it can feed the present and the future generations without deteriorating beyond repair. This will require that people do not cut trees without planting new ones; that people do not keep too many animals (cows, goats, sheep, etc.) on very small grazing plots of land; that people do not cause bushfires; that people control soil erosion, etc.

21. The second objective is that of establishing a self-sustaining process of economic growth and development. As of now, Africa’s growth is not self-sustaining. It depends on world events and on natural phenomena like rain or drought. Whenever there is a drought or a flood African growth stops and calamity takes over. Whenever the world economy suffers a recession with falling demand and prices for primary commodities, Africa’s growth goes in reverse gear and economic crisis ensues. So Africa has to transform its economy to make it produce what it consumes; market what people produce and need and produce what is needed to produce other industrial goods.

22. To achieve the second objective will not be easy. It will also not be possible in the short run. Again, as noted earlier, there are no instant solutions. It must be pursued with a long-term perspective. And this perspective should, in turn, focus on at least the following:

(a) Structural change in what is produced and how it is produced, especially in respect of technologies and raw material inputs;

(b) Mastering the industrialization process especially as regards heavy industries and indigenous entrepreneur capabilities;

(c) Linking the rural and urban sectors and supporting the informal sector;

(d) Reducing dependencies especially on:
- the need of foreign exchange,
- aid,
- foreign experts and advisers;
(e) Intensifying intra-African trade and co-operation as a means of overcoming the problem of small markets;
(f) Increasing the productivity and efficiency of resources, including the reversal of the brain-drain; and,
(g) Ensuring broad-based and democratic participation of the people in deciding on their needs and in producing them.

23. Africa urgently needs to integrate its economies. The go-it-alone approach that has characterized Africa's development efforts since independence has proved a total failure. African countries must realize that only by working together will they survive and develop. Divided, they will fall and their development will be doomed to fail.

24. It must, therefore, be emphasized in the strongest possible terms that, as envisaged in the Lagos Plan of Action, Africa should aim at the establishment of an African Economic Community by the year 2000. This community must be based on the objective realities of a unique cultural heritage, the massive potential for product specialization and the enormous advantages that will result from a unified large African market.

25. Successful efforts at economic integration must also address the following basic issues with maximum political will and determination:
(a) Removing trade barriers and increasing the role of regional trade associations;
(b) Agreeing on rationalized product specialization to reduce competition among countries of the same subregion;
(c) Avoiding unnecessary duplication of large-scale industries by establishing and harmonizing subregional industries; and,
(d) Pooling resources for research and development and widely sharing experiences in the application of research results.
Chapter Three
Structural Adjustment Programmes (SAPs) and Their Impact in the 1980s

26. It should be emphasized that the crisis that struck Africa in the 1980s had many causes. The drought resulted in one of the worst famines Africa has known this century. The fall in the prices of Africa's major commodities made foreign exchange to become very scarce and very expensive. A black market for foreign exchange became widespread. Countries could not import enough goods and could also not produce enough essential goods domestically. So, there were queues everywhere and domestic prices rose, almost everyday. Life was expensive and national currencies were nearly valueless. Most African economies were, literally, at the brink of collapse. Finding themselves in a tight and desperate situation, African countries sought financial assistance from the World Bank and the IMF mainly because they could not get any assistance elsewhere due to their low credit worthiness.

27. So, in essence, the World Bank and the IMF became primary lenders to most of the African countries and quite naturally they made such assistance available on their own terms. Their objectives, were less to help African countries than to "discipline" them and, above all, reorient their economic policies to the market economy model.

28. In this policy reorientation which is often described as policy reforms, the World Bank and the IMF took as their model for proper economic functioning in Africa the classical free-market system, in which prices are set by supply and demand and profitable enterprises provide the engine of economic growth. This model had become popular in the late 1970s and early 1980s in a number of developed countries: America, Britain, Germany and Japan to mention a few. When they looked at Africa, they saw practices sharply at odds with this free-market model. Many of the large industries were state-owned and not private-owned and a good deal of the agricultural products were bought and sold by government-run marketing boards at government-set prices. In many countries, a high percentage of these government enterprises did not operate efficiently or operated at a loss.
29. The two world's most powerful financial institutions also felt that in Africa, domestic food prices were often kept artificially low to make it easier for local people, especially those who lived in the cities, to feed their families although, the institutions reasoned, the governments could not finance the difference in prices. They further argued that by raising the import duties on some imported products in the hope of giving local industries a competitive edge only made African industries less competitive relative to the industries of the developed countries and the newly industrializing countries (NICs) of Asia.

30. National currencies were, in the view of the World Bank and IMF, artificially maintained at high rates of exchange, which made imported goods much cheaper to buy and also made earnings from African exports in local currencies rather low. Lastly, budget deficits which have their origin in the dwindling earnings from exports were regarded by these institutions as wrong. A balanced budget was regarded as a policy which must be pursued even if it results in lower expenditure on education in a continent with the largest illiteracy ratio and in slashing health expenditures in societies with the highest infant mortality ratios. Also the number of civil servants on government payrolls, in the judgement of the IMF and the World Bank, made for unnecessary bureaucracies and contributed to national budgets running in the red.

31. To ensure that African Governments pursued policies that the two institutions liked the institutions as well as donors decided that to qualify for loans - any type of loans - borrowing countries would have to adopt structural adjustment programmes (SAPs). These SAPs were mainly concerned with policies that would ensure that African countries would, first of all, reduce the deficits on external accounts and, secondly, achieve a balanced government budget.

32. What then constituted the basics of these SAPs from the IMF and the World Bank? Although the specifics of the agreements negotiated between the international financial institutions and governments varied, most of the programmes had certain common features. These generally, if not always, included the following:

(a) Cuts in government spending particularly expenditure on services that are crucial to the poor, the vulnerable and the aged (education, health, housing, water, etc.);
(b) Removal of import controls and removal of low prices for even essential goods and allowing the free market to determine prices;

(c) Devaluation of currencies;

(d) Tight-fisted control of money supply and credit to burn away inflation and raise interest rates to encourage savings;

(e) Privatization of government enterprises.

33. The overall result of these measures, it was hoped or believed, would solve the fiscal and trade imbalances and improve the capacity of the governments to service their debt obligations. The "fat" of government spending and intervention in the economy would be cut away, leaving the "muscle" of a re-invigorated private sector to push development forward. Government development projects and social service initiatives would be suspended until adjustment was carried out. Africa would import less and export more. In the meantime, individual and society’s needs would be provided for at market prices on the free market, thus making it more expensive and unaffordable to poor people who need them.

34. Let us look more closely at these policy choices and ask ourselves two questions. Were these policies likely to work in the African context? What would be their impact on the day-to-day aspects of real life? A hard look at the specific IMF/World Bank policy mechanisms shows that many of the policies are double-edged swords. Their advantages are likely to be easily offset by their disadvantages.

35. Cuts in government expenditure may, in some cases, be necessary. However, what often happens is that it is the so-called “soft” social sectors of education, health, housing, etc., which suffer from the cuts. Many governments do not reduce expenditure on the army or on other non-productive and unnecessary areas. The result is that cuts in government expenditure end up harming the welfare of the people.

36. Devaluation of currencies is supposed to increase self-sufficiency by making imported products more expensive and African exports cheaper. Therefore, African people would buy less foreign goods while people outside Africa would buy more African goods! On its own terms, this is an important objective and it would be good for
Africa if it were to happen. In the case of import-dependent African economies heavy generalized currency devaluation also makes imported spare parts, fuel and other inputs to African industries more expensive, thereby raising the cost of doing business. And since many African countries do not produce these products, it is not possible to replace them with locally produced ones. On the other side, most of the countries that buy African products have set quotas on how much can be imported or have fixed prices in foreign currencies such as dollars or British pounds to shelter their own producers from foreign competition. Under these conditions, African products, even when they become cheaper in local currencies, do not necessarily gain new outside markets or earn more foreign exchange. So devaluation rarely can, if ever, achieve its desired effects. But worse it leads to inflation, capital flight and bad allocation of scarce resources.

37. **High interest rates** may increase the incentive to save money, but they also encourage speculative investment that brings quick paper money profits to a few people while adding nothing to productive capacity. High interest rates and tight credit also make capital to start new businesses harder to come by. Therefore they result in stagnation. Worse still, high interest rates and very tight credit might bankrupt many existing businesses thus leading to a total decline in the economy. This in turn worsens the unemployment situation.

38. **Privatization** of government enterprises that do not function well cannot be challenged. But also wholesale privatization of everything that is government-owned cannot also be justified especially in the situation of most African countries. In any case, there are a few difficult issues that must always be considered. Examples of such issues include:

(i) The shortage of indigenous businessmen to take over government enterprises;

(ii) The shortage of local private capital to pay for and run such privatized enterprises;

(iii) The greater importance of the service to the people of some enterprise as compared to their merely being profitable;

(iv) The real danger that privatized businesses can and do fall into the hands of foreign big businesses;
(v) The size or strategic importance of certain enterprises that cannot or should not be left in the hands of businessmen who just look for the highest profit; and
(vi) The impact of privatization on the employment situation.

39. **Domestic prices of goods and services** can always be determined by the market. Naturally, if many people want a given good or service and this good or service is in short supply, its price will be high. Also, if very few people want a given good or service while this good or service is abundant, its price will be low. But, for the prices to move efficiently like this, the market must be near almost perfect. This means that all people must know if and where the goods are; the goods and services should move freely from one part of the country to another; investments should move easily and quickly from low profit sectors to high profit ones; there should be no bottle-necks in production to induce frequent and sharp shortages of goods; goods must freely compete with no one particular producer having the lion’s share in the production of a given commodity; and there must be no hoarding. Of course, in Africa these situations are almost unknown. Until the structures of the African economies have been transformed the pursuit of free market system will remain a mirage.

40. **External trade liberalization** for underdeveloped economies can have some serious side-effects. For one, it can lead to dumping of cheap products from outside such as clothes, shoes, creams, etc. This undermines the local industries that produce or those that would have started to produce these products as they cannot compete with similar but much cheaper products from abroad. So African infant industries fail to take-off under extensive trade liberalization. This is also very critical with respect to imported food such as rice, wheat, milk, etc. Developed countries which have an excess of these food items reduce their price and export them to Africa to get rid of this excess at any price. If such a situation is not controlled, Africa will never be able to produce its own food.

41. What can we also summarize about the eventual impact of the policies advocated under the SAPs? In general, we can assert that by directing the major attack of reform on global fiscal imbalances, SAPs were addressing the symptoms rather than the fundamental factors responsible for Africa’s persistent socio-economic crisis. They failed to address the need for improved social and technological
infrastructure and failed to mobilize the enthusiasm, support and
creative abilities of the people and grass-roots organizations. Instead,
SAPs simply led to the postponement or total abandonment of
development programmes under the requirements of austerity poli-
cies. As such no new roads, schools or hospitals could be built. Even
existing ones were short of basic materials. Schools lacked chalk,
writing materials and textbooks. Hospitals were perpetually short of
medicines and drugs.

42. As the 1980s drew to a close, it became clear that economic
turnaround had not occurred in almost all of the countries that had
tried SAPs. In key economic categories like production, trade and
investment, even the countries that followed adjustment programmes
with the most rigour were barely holding their ground. Most were
suffering further set-backs including high inflation, lower spending on
health, education, housing, sanitation and water. Also, laying off
people from their jobs or the declining real wages made suffering to
reach unbearable proportions.

43. Four other aspects of the track record of orthodox structural
adjustment programmes are worth commenting upon:

(a) In several instances, the installation of structural adjustment
programmes were met with popular discontent, riots and political
instability. Unless there are clear and concrete goals for long-term
improvement to justify immediate sacrifices, governments impos-
ing adjustment programmes on the people are always in danger
of losing credibility. The SAPs offered no such set of positive,
tangible goals for the African people.

(b) By imposing the terms of adjustment programmes from the
outside, the SAPs undercut the development of national leader-
ship and indigenous economic management capabilities.

(c) The package of fiscal reforms spelled out a tight austerity policy
bringing pain and suffering for the people and political risks for
governments. The World Bank and the IMF had admitted that
the "shock effect" of SAPS would be painful, but insisted that the
bitter medicine would bring economic health within a few years.
The bitterness was tasted to the full but economic health was
nowhere in sight.
(d) Installing a strict free-market economy was not, as sometimes advertised, a return to normalcy, but a leap into the unknown. The principles of free market capitalism were set in writing by Adam Smith in 1776, but these principles have never existed in pure form in the real world. Modern capitalism was protected in Europe by mercantilist manipulation of market prices and filled by wealth extracted from colonial empires. Also, it is a well-known fact that the startling growth of the economies of Japan and the Pacific Rim (Taiwan, Singapore, South Korea, Indonesia) in more recent times was accomplished through trade protectionism and active intervention of governments in industrial development. To expect African countries already weakened by international financial shocks to rely on naked free market policies for development requires more reliance on faith or miracles than on reason or precedents.

44. However many African countries went along with SAPs because it was only by so doing that:

(i) They had access to the badly needed foreign exchange (forex);

(ii) They could have outstanding and overdue debt-servicing obligations rescheduled; and,

(iii) They could attract additional official development assistance (ODA).

45. The many disappointments and deficiencies of orthodox SAPs must have affected the thinking of many people and institutions. **What did these people say and what do they suggest?** First of all, the institutions that strongly supported these programmes — namely, the IMF and World Bank — have become as frustrated as the countries themselves. These institutions have made a re-examination of the policy bundles they prescribe and have, in a few cases, been more understanding of the realities of the African economic structures. They are, in a way, trying to make the new generations of SAPs to wear a human face; i.e., not to harm people — especially the poor and the vulnerable like the children, pregnant mothers, the sick, the disabled, the unemployed and the aged.

46. But the evolution of these programmes into more people-centred policies is slow and evasive. Most proposals seem to stick to the core of the old types of SAPs and to merely add some aspects of a human
face. For example, UNICEF, in a report called “Adjustment with a Human Face”, protested the falling standards of living among the poorest sectors of the population that accompanied structural adjustment programmes. It argued against making the poor bear the brunt of the burden of adjustment and called for greater investment in social services and “safety net” provisions for the disadvantaged.
Chapter Four
An Alternative Framework to SAPs

47. The failure of African countries to bring about a process of sustainable development in spite of SAPs as well as the suffering of people led to an outcry for an alternative. This general outcry eventually led the United Nations General Assembly to urge African countries to "increase their efforts in the search for a viable conceptual and practical framework for economic structural adjustment programmes in keeping with the long-term development objectives and strategies at the national, subregional and regional levels."

48. It was generally agreed that any alternative to SAP must at least have the following basic features:

(a) It must be a broad framework and not a standard programme to be applied uniformly in all countries regardless of their differences, special features and specific problems;

(b) The concepts of the framework must be viable, and relevant to the present African situation, meaning that these concepts must not be mere text-book theories that have no bearing to the day-to-day realities of the African economies and societies;

(c) The framework must be practicable meaning that it should be easy to implement at all levels and by all nationals concerned and should not impose unbearable hardships and suffering to the people; and,

(d) The alternative should take, hand in hand, adjustment with long-term development objectives and strategies. Such that the path of long-term development and transformation mapped out in the Lagos Plan of Action can be resumed;

(e) For the framework to be effectively operational, it must, right at its conception and formulation, involve all the people at all levels.

49. In addition to the above necessary features, it was also believed essential that any alternative to SAPs should attempt to find convincing answers to at least the following four fundamental questions about

50. **First, to what should African countries be adjusting?** While most, if not all, SAPs in African countries had taken the short-term view that Africa should be adjusting to the financial crisis — domestic or external — it was realized that what the African economies require is to bring about structural transformation, diversification and increased productivity in order to better the life of the African people and solve the problem of the underdevelopment of the African economies. It was understood that only through such a framework that:

(i) Productive capacity will increase;
(ii) Indigenous factor inputs will be produced; and,
(iii) A process of sustainable self-reliant development will be initiated.

51. Balancing budgets on its own can never make the African people richer and can also never bring about real development. The alternative framework was, therefore, anchored on the premise that any adjustment programme that is put in place must not compromise the long-term development objective of the African countries.

52. **Second, what should African countries adjust?** No doubt for a wholesome alternative framework that sought to integrate short- and long-term issues into one package, this was one of the most difficult questions to adequately tackle. As one can guess, it touches on almost all aspects of socio-economic life: political, social, cultural, environmental and economic. In spite of the complexity, there was still need to find a satisfactory answer. The answer that was found was that African countries should adjust the three basic elements that affect people’s survival and well-being, namely:

(a) **The different forces** in the African society that affect all people at different levels such as the domestic systems of government, the nature of the public sector, the role of the private sector, the learning systems, the cultural motivations and value systems, etc.;

(b) **The different ways and means** of African countries to produce what their people need. These means and ways centre mainly around what African countries themselves have and own as their resources: the human resources in terms of know-how and im-
agination; natural wealth in terms of minerals, land, forests, livestock, wildlife, energy, etc.; the financial wealth in terms of what people can keep or have kept aside for the future;

(c) **The goods and services** that should be produced should, in the alternative framework, be those that are vital for the welfare of the people and for keeping the process of production running smoothly and continuously. These include vital goods and services like food, water, basic clothing, soap, energy for cooking, medicines, educational facilities and school supplies, cheap transport in rural and urban areas, sports and recreation as well as raw materials for small- and medium-scale industries.

53. The third question that the alternative set out to answer is that of **how to adjust?** The most basic understanding about this question is that any adjustment that a country does should be done in such a way that (i) it does not make the life of the people impossible to live, and (ii) it must not postpone the process of transformation. This is why people have been talking of human-centred adjustment and adjustment with transformation. It means that policies must be very carefully chosen to ensure that human welfare is improved rather than worsened and that economic transformation will occur along with the adjustment. In a way, one could say that the only adjustment that should ever be undertaken is that which is both human and developmental.

54. The last, but not the least, important aspects of the alternative framework relates to the question of **Adjustment for whom and by whom?** Obviously, it is clear that adjustment must be for the benefit of the majority of the people and as such, adjustment programmes must derive from within rather than without the people. Hence the alternative framework insists that adjustment with transformation must involve:

(i) Access of the poor to basic factors of production;

(ii) Creation of employment opportunities;

(iii) Improving the way national wealth is shared throughout the population.

55. Regarding the issue of who is to implement the alternative framework, it is necessary to emphasize the role of popular participa-
tion. Programmes of adjustment with transformation should not be the property of only the government or the Ministry of Finance and the Central Bank of any African country. It should be the property of the people and the people's own grass-roots organizations. It is the people who should decide on the main thrust of such programmes at the different levels of society and also devise the means and actions to be taken to implement these programmes.
Chapter Five
Policies for the Alternative

56. It was shown in chapter four that the African Alternative is a framework proposing the building blocks of sustained economic and social development. This framework maintains that meeting the needs of local populations and investment in basic development goals, such as those outlined in the Lagos Plan, are not luxuries to be easily dismissed or pushed aside while austerity programmes stretch on into an indefinite and unknown future. Indeed the framework further maintains that solving the peoples’ basic problems and establishing a momentum for transformation are the real solution to the problems facing African countries.

57. This chapter takes a close look at the broad range of policy options that the framework proposes to be applied flexibly to the specific cases of individual countries. It is not a list of detailed instructions telling African Governments what to do but rather a sort of “menu” from which each government can select a set of policy measures and instruments from which it can make up a “dish” of policies that suits its purpose, the condition of the country and the problems to be tackled. To make reference easy, this menu of policies and their likely effects are given in tabular form as an annex.

58. These policy measures and instruments have been classified into four main categories or blocs. While it is left for each country to make its selection from the menu provided it is imperative in order to pursue the path of adjustment with transformation — to have a wholesome and balanced meal as it were — to select from each and every one of the four blocs at any given point in time. These blocs are:

(a) Strengthening and diversifying Africa’s production capacity;

(b) Improving the level of people’s incomes and the pattern of its distribution;

(c) Adjusting the pattern of public expenditure to satisfy people’s essential needs;
(d) Providing institutional support for adjustment with transformation.

(a) Strengthening and Diversifying Production

59. The narrow range of goods and services that Africa presently produces either for export or to meet local needs has to be greatly widened. To do this a number of policies become very important. For example, credit should be extended on favourable terms to enterprises that manufacture essential goods as well as to food production. Investment from overseas in these sectors should also receive favourable treatment. A larger share of foreign exchange has to be accumulated and channelled for the import of spare parts, fertilizers, chemicals, machinery and other vital production inputs in selected priority sectors and this can be achieved by the use of different exchange rates for these goods. This is why a Multiple Exchange Rate System (MERS) is one of the instruments of AAF-SAP. It allows for favourable rates of exchange for the importation of essential goods. It also enables the use of less favourable rates of exchange on non-essential imports and luxury items and on flight capital — i.e., the wealth accumulated in Africa but invested abroad. All these will help the balance of payments and increase funds available for local development. Specially assigned currency exchange rates can also be applied to earnings of African workers living abroad so as to encourage them to send home their savings. MERS is therefore an important tool with which to shape national development strategies. It is an alternative to indiscriminate excessive and across-the-board currency devaluations which have wrecked havoc on African economies.

60. For Africa to develop, it has to use its strengths in natural resources to build up its weak industrial sector. A strategic starting point is to carry out processing of raw materials, agricultural and mineral, within African countries. Processed exports will always earn more money overseas and local industrial capacity will be increased and diversified. Even employment will increase very much. Links between agriculture and industry will fortify both sectors and make both sectors dynamic. Certain agricultural products, for instance, may be employed as raw materials in new industries, and some by-products can be used as fertilizers or as sources of energy. Manufacturing on its part would supply agriculture with what the sector need in order to produce more and more efficiently: agricultural tools and machinery, irrigation equipment, pesticides, etc. Manufacturing will also
produce essential goods such as sugar, salt, soap, clothes, books, etc., to satisfy the needs of the rural farmers.

61. But while Africa will have to use its natural resources as the basis for transformation, it is the development of human resources that will, in the final analysis, determine the course and content of the transformation process. The creativity and imagination of the African people will be the real factor in what Africa will be able to achieve. Hard work, understanding of the issues, dedication to African causes and a clear vision of the people will also be essential. For all this to happen, it is necessary to focus on the development, mobilization and efficient utilization of one of Africa's most abundant resources: its people. It is with the African people themselves, as a resource, that the mastery of the future lies.

62. Another requirement to build a broader base for production is to get scientific researchers involved directly with productive enterprises. A key field at the moment is bio-technology, a rapidly evolving science that threatens to substitute laboratory-finished products for raw commodities such as those exported by Africa. But this field of bio-technology could be turned to advantage if applied by African countries in well thought-out areas.

63. An additional area of strategic opportunity is to be found in the informal sector of Africa's economy. Cottage and small-scale businesses like car repair services, sewing, brick-making as well as light manufacture and assembly operations can effectively occupy a large proportion of overall economic activity in Africa. Already, these small enterprises in the informal sector are filling a large vacuum in the production of goods and the provision of essential services. Instead of harassing this sector, it should be supported and encouraged. Therefore, the framework recognizes that the tenacious ability of the informal sector to carry out productive activities, even under adverse conditions, should be encouraged through access to credit and flexible regulatory procedures with the objective of integrating the informal sector with the modern sector of the economy.

64. Food self-sufficiency is a very special category in the area of strengthening and diversifying Africa's production capacity. If it can feed its people, Africa will strengthen its human resources, reduce political instability and stem the loss of foreign exchange that has to be spent on imports of food. Therefore, AAF-SAP accordingly pro-
poses that national governments should allocate a minimum of 20-25 per cent of total public investment to agriculture and particularly to food production.

65. Government spending in agriculture should not only be on direct inputs such as seeds, fertilizers, or on extension services and technical assistance to farmers and farmers' co-operatives but also on improvement of rural infrastructures like roads and storage facilities. Creating more jobs in the countryside and making the rural area attractive to live in will reduce the exodus of rural people to cities and provide a larger domestic market for national industries.

66. Land reform — more equitable distribution of land on which to grow crops or to raise cattle and more open rules for legal ownership of land — is high on AAF-SAP's agenda for Africa. Special emphasis is placed on granting legal recognition to the rights of African women to land. This is very basic because more than 85 per cent of the African women of working age are estimated to be involved in agricultural production.

67. The common tendency to favour production of crops for export (the so-called cash-crops) over production of food for local consumption needs to be corrected. One way to encourage self-sufficiency is to launch mass campaigns promoting foods that can be grown locally and making sure that these can fetch high and stable prices. This is one strong reason why AAF-SAP strongly advocates price support policies for food production.

68. Trade and currency exchange rates are also very important in the process of strengthening and diversifying Africa's production base. Thus, a central feature of AAF-SAP is the recommendation for the use of multiple exchange rates as an element of trade policy. Under this policy, the rate at which the currency of an African country is exchanged for foreign currency will vary in the cases of different imports and exports and other financial transactions. African Governments can promote industries of strategic national importance by assigning favourable terms of exchange to designated products shipped overseas or to other African countries. Conversely, vital imports can be encouraged. Unfavourable rates of exchange on non-essential imports and luxury items and on capital flight (wealth amassed in African countries but taken outside of Africa) will help the balance of payments and increase funds available for local use for the African good.
Specially assigned currency exchange rates can also be applied to earnings of Africans working abroad. If they wish to send some of the earnings to their families or to transfer their savings to the home countries they should be given a good exchange rate.

69. Careful use of multiple exchange rates can give African Governments a tool with which to shape national development strategies. It is an alternative to the problems associated with highly over-valued currencies, which discourage exports and encourage imports and damage national trade balances. It also avoids some of the drawbacks that have emerged from across-the-board and massive currency devaluations especially those of very high price rises, falling purchasing power and blockage of necessary imports such as medicines, spare parts, industrial inputs and petrol. As we all know, there are black markets for foreign exchange in most African countries. Thus, multiple exchange rates already exist on a de facto basis in most African countries, often in the form of differences between official exchange rates and black market rates. Formal, purposeful control of multi-tiered rates can only be an improvement.

(b) Improving the level of income and its pattern of distribution

70. In undertaking adjustment with transformation, AAF-SAP calls for aiming at increasing the level of income. As such the whole process of adjustment must enhance and not undermine economic growth. It is very costly and perhaps even counter-productive to undertake programmes of adjustment that deflate the economy like one deflates a balloon. When an economy does not grow or goes into a recession, more people become unemployed, real wages decline and poverty increases. AAF-SAP strongly advises against such policies.

71. What it recommends are those policies that will increase the dynamism of the economy and increase incomes of the people. In this respect, resource mobilization and their efficient utilization is a necessary first step. Governments are urged to find innovative ways to get more revenue. It also urges on governments the reduction of defence expenditure and of other non-productive public expenditure so as to concentrate public resources on social services and strategic development projects. In contrast to Latin America, where average expenditures in education are twice those for defence, developing Africa spends less on education and health put together than on the
military. As of now, only in cases where countries face outside aggression and destabilization are there legitimate reasons for maintaining current levels of military spending. Otherwise, in the current situation of Africa, there is no logical reason to continue to buy massive military equipment or to maintain very large armies.

72. Decisive government action is needed to plug financial leakages, such as payments for unnecessary imports or overpriced imports or underpriced exports, flight of capital to foreign banks by foreigners and Africans alike, government inefficiency, and untaxable profits made through criminal activity. Also, an unacceptably high share of Africa's scarce foreign exchange is tied up in payments on foreign debt. To free financial resources for productive investment, debt relief on the part of international creditors is called for as is improved debt management by African Governments. Only a small proportion of the massive amount of debt that exists worldwide is owed by African countries. Relinquishing a portion of the African debt will not threaten the international credit system, but will make a tremendous difference to national economies which are presently making debt payments which are nearly as large as their export earnings.

73. AAF-SAP does not focus on only financial resources. It rightly gives a central role to human resources. Because the people of Africa must be equipped to lead a new generation of development programmes, and because human well-being is the central goal of economic development, AAF-SAP recommends that at least 30 percent of total government spending be allocated to health, education and other vital social services. Cutbacks in spending achieved at the expense of investment in Africa's human capital are unproductive in the long run and an abdication of the most basic responsibilities of government anywhere in the world.

74. Privatization of government enterprises is not neglected by AAF-SAP since it has implications on the dynamism of the economy, and on the efficiency of resource use. The framework recognizes that governments overloaded with debt must give up some to ownership of certain unprofitable operations, by selling them off preferably to national private businessmen and business women. But it must be noted that under current African conditions, governments cannot completely abandon their role in ensuring development. Essential social services must be provided. Protecting the environment, building ports and roads, modernizing communication networks, establishing
a system of primary, secondary and technical schools and colleges that will promote mastery of modern technology, to mention but a few, are all functions that must be carried out even if they rarely will produce high visible financial profits. In other cases, it is better to concentrate efforts on improving the quality of management of important state-run enterprises than to sell off valuable public property at a loss or, if there are no buyers, allow productive facilities to stand idle.

75. Therefore, AAF-SAP suggests that African countries should strike a pragmatic balance between the public and private sectors by eliminating subsidies to enterprises that do not provide social services or promote strategic development needs; adopting investment codes to encourage new businesses; making loans available at low interest rates; and, maintaining government involvement as and when necessary especially in the crucial sectors of the economy.

76. Concerned about the need to improve the way national wealth is shared among the population, AAF-SAP proposes a strong policy of guaranteed minimum prices for food crops managed through strategic food reserves. This policy is seen as being crucial in assuring income to farmers. If farmers' incomes can be assured at a level that enables them to acquire basic necessities that they do not produce, then adjustment with transformation is likely to be on more solid ground. It should always be stressed to government that the majority of the African people are in rural areas mainly as farmers. According to AAF-SAP, policies must favour and protect this majority rather than the urban elites as most plans and programmes have tended to do up to now.

(c) Adjusting the pattern of expenditure for the satisfaction of vital needs

77. Old-styled types of SAPs put a lot of emphasis on the adoption of policies that would reduce expenditures of government and peoples to bring them to the level of incomes. These were commonly known as "demand management" policies. They tend to include policies that would necessitate the elimination of government budget deficits through cuts in expenditure on wages, elimination of subsidies on consumer goods and essential services and to government enterprises, reductions in the number of public employees, and other budgetary reduction. Normally, governments found it easier to slash expenditures of the "soft" sectors like education and health. The governments
would also quite easily, if not readily, postpone expenditures on development projects and would even abandon some of the ongoing development projects.

78. AAF-SAP flatly refuses to accept this very narrow view of adjustment. As an alternative policy choice, AAF-SAP finds that it is possible and better to deal with well-studied government expenditure switching. Such switching can bring about significant changes in the delivery of services and effectiveness of government without increasing spending. For example, AAF-SAP suggests that resources can be switched from the military to social services, and development projects. In this way social services and development itself need not suffer from the programme of adjustment with transformation. Further, to ensure that the patterns of expenditure are directed towards the satisfaction of people’s essential needs, AAF-SAP sees nothing wrong at all with the use of selective trade policies. Unlike traditional SAPs, AAF-SAP sees clear advantages in using import controls including even the banning of non-essential goods. In this way, the essential goods for the people and the machines and equipment for development projects can be imported. The banning of certain imports can also help the growth of domestic substitutes and protect infant industries that would otherwise be swallowed up by cheap imports and dumping of goods from abroad. These are all logical and strong reasons for the alternative policy choices of AAF-SAP.

79. A special feature of AAF-SAP policy alternatives that deserves special mention here is the aspect of regional co-operation in the design, choice and implementation of programmes of adjustment with transformation. This is because many improvements in Africa’s development pattern will involve projects that stretch across national boundaries. Co-ordination between countries and the pooling of financial resources are needed to put a number of projects into action. The exploitation of African rivers to produce hydro-electric power is one example. Rail and highway links that run in a straight line from the interior to the ports — a legacy of colonial times — need to be extended into a spider-web network connecting the African countries. Improved transportation and communication links will encourage intra-African trade and ease dependence on overseas markets. Trade taking place within the continent will also be facilitated by taking down tariff barriers between African countries, co-ordinating exchange rates between countries to make it easier to exchange goods and, when appropriate, bartering commodities of equivalent values without the
medium of national currencies. Establishing other mediums of exchange such as the travellers' cheques of the Preferential Trade Area of the Eastern and Southern States (PTA) is also an attractive alternative in a subregional context.

80. Research, especially agricultural research, that might be too expensive for any one country can be mounted by multinational efforts that pool resources. Regionally sponsored research into improved seeds for staples like maize or millet, applying modern agricultural techniques to tropical and arid soils, contending with drought and stemming the spread of deserts, and preventing and curing disease will all aid in the dissemination of new knowledge and useful technologies all over Africa and not to be limited selfishly to one country alone.

81. Similarly, Africa's productive capacity would be enhanced if countries could develop regional production schemes. National industries can be developed to complement those of neighbouring countries instead of competing with them. Areas of high priority are iron and steel, machine tools, fertilizers, farm machinery and transportation and construction equipment. Pooling resources in heavy industry and the development of lake and river basins will allow for the benefit of economies of scale and avoid costly duplication of efforts.

82. Marketing is another area of co-operation that needs to be investigated. AAF-SAP calls for agreements between African countries and overseas purchasers to stabilize the prices of primary export commodities. It also envisions the possibility of assigning export specializations, so that competition between African countries for export markets is reduced and downward pressure on prices of basic commodities is eased. It is clearly self-defeating for all countries to struggle to produce more of the same primary commodity (e.g., coffee or cocoa) as this will, in the long run, lower the price of the commodity in question.

(d) Providing institutional support for adjustment with transformation

83. For all the above policies to work effectively there is need to support them with institutional arrangements. This could involve the setting up of new institutions in rural areas and strengthening old ones. Examples of such institutional support include clear legislation of property ownership; financial institutions for self-help programmes
or for small farmers or cottage industries; supervised food production credit; indigenous non-government organizations, etc.
Chapter Six
Implementing the Alternative

84. It is certainly not enough to have an African Alternative on paper. It must be put into action. Therefore, it is very essential to outline how African countries should go about the actual implementation of AAF-SAP. In this respect it should first be stressed that putting the policies and mechanisms of AAF-SAP into action requires the active support and participation of the entire population and their grass-root organizations; the full dedication and commitment of the government and all its organs as well as the support of the international community.

85. At the national level the activities of government will have to be closely co-ordinated within it and between it and people’s organizations like trade unions, employer’s associations as well as non-government organizations. Governments must find ways to yield a measure of authority to localities and community self-management in carrying out specific policy reforms at their respective levels. Consultations between the public sector and the different sections of the private sector including trade unions and other non-governmental organizations are also needed so that all can play their part in the mobilization and utilization of national resources.

86. At the subregional level, a number of key measures within the African Alternative Framework call for close co-operation between the countries of the region: specialization of industries and specialized production of commodities for foreign markets; pooling of resources for research and industrial development; environmental protection; and, channels for increased intra-African trade. Co-ordination of consumption as well as production should be high on the agenda. Success in one country in changing consumption patterns to favour locally or regionally produced commodities may be undermined by the failure of neighbouring countries to do so. It should be stressed that lack of regional co-operation was one factor that bedeviled conventional SAPs. More often than not, exchange rates, interest rates and pricing policies were adjusted at different times and to differing degrees among countries in the same region or subregion, with contradictory impact and, in many cases, with policies in one country nullifying the effect of other policies in a neighbouring country.
87. **At the international level**, multilateral development and financial institutions as well as bilateral donor agencies will have a useful role in implementing the policies of AAF-SAP. First, the international financial institutions such as the World Bank and the IMF should encourage and support programmes designed by African Governments to solve specific national problems of economic recovery and transformation. Second, donors should do all they can to respect the development priorities that African countries set themselves. Third, donors should give their assistance at the most favourable terms.

88. To adjust the ongoing selection of policy mechanisms and get early warning signals of deviations from objectives. Programmes need to be closely monitored. National, subregional and regional data systems will have to be in place to assess the success or failure of new policies. Statistical indicators of economic growth and financial flows need to be studied, but so do qualitative factors such as the extent to which basic needs are satisfied, political and social vitality and progress in transforming production structures and consumption patterns. National agencies need to become more sensitive to the plight of ordinary citizens, whether this plight is of hunger, disease, ignorance or the inability to educate their children.

89. Gaining the support of the population, however, will require more than an extensive public relations campaign. There needs to be genuine participation of the people in rebuilding African political economies. This will require that decision-making is democratized at the national, local and grass-roots levels. People will have to be convinced that their leaders are accountable to them and that genuine rather than superficial and pretentious, consultations take place at every stage of policy formulation, planning and implementation with local authorities, non-governmental organizations and village and neighbourhood associations. In this respect as in many others outlined earlier, AAF-SAP offers an opportunity for the leadership of African countries to regain the initiative in getting national development going ahead with the people. But, needless to emphasize, its implementation will require perseverance, responsible decision-making, alertness to changing economic conditions and full commitment to genuine democratization.
Annex A:
Summary of Policy Instruments and Measures to be modified under AAF-SAP

<table>
<thead>
<tr>
<th>Description of Policy Instrument and Measures</th>
<th>Effects for adjustment with transformation</th>
</tr>
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<tbody>
<tr>
<td>1. Drastic budgetary reductions, especially with respect to expenditures and subsidies on social services and essential goods.</td>
<td>Undermines the human conditions, the enabling environment and the future potential for development; necessitates massive retrenchment in the public sector.</td>
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<tr>
<td>2. Indiscriminate promotion of traditional exports through price incentives offered only to the &quot;tradeables&quot;.</td>
<td>Undermines food production and self-sufficiency, and can lead to undesirable environmental degradation; could result in over-supply and fall in prices (fallacy of composition).</td>
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<tr>
<td>3. Across-the-board credit squeeze.</td>
<td>Leads to overall contraction of the economy; declines in capacity utilisation and closure of enterprises; and an accentuated shortage of critical goods and services.</td>
</tr>
<tr>
<td>4. Generalised devaluation through open foreign exchange markets, currency auctions and large and frequent currency depreciations.</td>
<td>Leads to socially unsupportable increases in prices of critical goods and services; raises the domestic cost of imported inputs and undermines capacity utilisation; triggers general inflation; diverts scarce foreign exchange to speculative activities and exacerbate capital flight; worsens income distribution patterns; undermines growth and can result in structural entrenchment of traditional exports through price incentives for such commodities or &quot;tradeables&quot;.</td>
</tr>
<tr>
<td>5. Unsustainably high real interest rates (inflation-adjusted nominal rates of interest).</td>
<td>Shifts the economy towards speculative and trading activities by becoming a disincentive to productive investment; fuels inflation.</td>
</tr>
<tr>
<td>6. Total import liberalisation.</td>
<td>Leads to greater and more entrenched external dependence; intensifies foreign exchange constraints; jeopardises national priorities such as food self-sufficiency; erodes capacity of infant industries and thereby slows industrialisation.</td>
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<tr>
<td>Description of Policy Instrument and Measures</td>
<td>Effects for adjustment with transformation</td>
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<tr>
<td>7. Excessive dependence on market forces for getting the &quot;prices right&quot; in structurally distorted and imperfect market situations.</td>
<td>Worsens inflation through sharp rises in production costs and mark-ups; causes deviations from desirable production and consumption patterns and priorities, and may derail entire process of transformation.</td>
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Annex B: Summary of Proposed Policy Instruments and Measures under AAF-SAP

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<thead>
<tr>
<th>Description of Policy Instrument and Measures</th>
<th>Effects for adjustment with transformation</th>
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<tbody>
<tr>
<td><strong>A. Strengthening and Diversifying Production Capacity</strong></td>
<td></td>
</tr>
<tr>
<td>A.1 Land reforms for better access and entitlement to land for productive use; enhancement of the role of women as agents of change and the modernization of the food production sector.</td>
<td>increased production and opportunities for gainful employment; poverty alleviation and more equitable income distribution.</td>
</tr>
<tr>
<td>A.2 Devoting at least 20-25 per cent of the total of public investment to agriculture.</td>
<td>improved rural infrastructure and agricultural institutions; increased agricultural productivity; expansion of rural employment.</td>
</tr>
<tr>
<td>A.3 Allocation of an increasing share of foreign exchange for imports of vital inputs for agriculture and manufacturing sectors; expansion of agricultural and industrial employment; increased domestic output of essential commodities and avoidance of import strangulation; and increased interlinkages between agriculture and industry;</td>
<td>satisfaction of critical needs.</td>
</tr>
<tr>
<td>A.4 Sectoral allocation of credit using credit guidelines that would favour the food subsector and the manufacture of essential goods.</td>
<td>increased production of food and essential manufactured goods; increased gainful employment.</td>
</tr>
<tr>
<td>A.5 Adoption of investment codes and procedures tailored to the promotion and development of small-scale industries.</td>
<td>better enabling environment with greater involvement of local entrepreneurs.</td>
</tr>
<tr>
<td>A.6 Use of selective nominal interest rates in such a way that interest rates on loans for speculative activities would be greater than the rates on loans for productive activities, and resulting weighted real interest rates for savings would be positive.</td>
<td>increased mobilisation of domestic savings; reduction of speculative activities; shifting resources to productive activities.</td>
</tr>
</tbody>
</table>
### Description of Policy Instrument and Measures

| A.7 | Creation and strengthening of rural financial institutions. |
| A.8 | Rehabilitation and rationalisation of installed productive and infrastructural capacities; and setting up of an effective national maintenance system. |
| A.9 | Utilizing the existence of de facto multiple exchange rates systems in a rationalized manner and/or creating and streamlining such a system for purposes of resource transfers, resource mobilisation and reversal of capital flight and ensuring availability of essential imports. |
| A.10 | Creation of a special fund for loans at subsidized interest rates to certain groups of economic operators. |

### Effects for adjustment with transformation

- Increased mobilisation of rural savings and improved financial intermediation.
- Fuller capacity utilisation; economic growth; savings in foreign exchange.
- Encouragement of capital inflows, especially by nationals working abroad, and discouragement of capital flight; improvement in balance of payments; satisfaction of critical needs.
- Encouragement of greater productive activity.
- Increased government revenue.
- Release of resources for investment; improvement in resource allocation; improvement in balance of payments.
- Release of resources for productive investments; better fiscal balance.
- Sustaining growth through support to relevant production units.

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

- **B.1** Enlarging the tax base, improving efficiency and probity of the tax collection machinery.
- **B.2** Reduction of government expenditure on defence as much as possible, and on non-productive public sector activities.
- **B.3** Removal of subventions to parastatals other than those in the social sector and nationally strategic basic industries.
- **B.4** Use of limited, realistic and decreasing deficit financing for productive and infrastructural investments that have little import content.
### Description of Policy Instrument and Measures

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<th>B.5 Guaranteed minimum price for food crops managed through strategic food reserves.</th>
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### Effects for adjustment with transformation

- food production on a sustained basis; assured income to farmers; increased access to food for majority of the population; control of inflation.

## C. Pattern of Expenditure for the Satisfaction of Needs

### C.1 Expenditure-switching (without necessarily increasing total government spending) to raise government outlays on the social sectors, particularly those aspects of education, health and the integration of women in the development process that are likely to increase productivity, such that an average of 30 per cent of total annual government outlays is devoted to the social sectors; and, thereafter to maintain a growth rate in public outlays on these sectors at above the population growth rate.

### C.2 Selective policies through subsidies, pricing policies etc., to increase the supply of essential commodities required for maintaining a socially-stable atmosphere for development.

### C.3 Selective use of trade policy, including banning of certain specified luxuries; high tax rates on conspicuous consumption and competitive factor inputs that have domestic substitutes; and mass education towards consumption of domestic goods.

### C.4 Strengthening intra-African monetary and financial cooperation as well as payments and clearing arrangements.

### C.5 Limitation of debt service ratios to levels consistent with sustaining and accelerating growth and development.

- satisfaction of critical social needs; investment in human capital; raising living standards of majority of the population.

- increased affordability of essential goods and services as well as critical intermediate inputs; increased production of industrial raw materials; control of inflation.

- changes in consumption patterns; enlargement of markets for domestic goods; changes in production patterns; internalisation of production of factor inputs; improvements in balance of payments.

- increased self-reliance and capacities to finance adjustment with transformation.

- freeing of resources for productive activities to sustain adjustment with transformation; improvement of balance of payments position.
<table>
<thead>
<tr>
<th>Description of Policy Instrument and Measures</th>
<th>Effects for adjustment with transformation</th>
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<tbody>
<tr>
<td>C.6 Specific export incentives for processed exports and carefully-selected primary commodities.</td>
<td>increased diversification; reduced vulnerability to fluctuations in commodity prices; export growth and increased export earnings.</td>
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<tr>
<td>C.7 Differential export subsidies; removal of trade barriers; and encouraging barter trade to boost intra-African trade.</td>
<td>reduced external dependence and better product mixes and integration in Africa.</td>
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<td>C.8 Bilateral and multilateral agreements on primary commodities.</td>
<td>improved and more stable balance of payments.</td>
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<td><strong>D. Institutional Support for Adjustment with Transformation</strong></td>
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<tr>
<td>D.1 Creation of adequately funded &quot;supervised food production credit systems&quot; in rural areas with easy access by farmers in terms of limited collaterals, etc.</td>
<td>sustained increase in food production and adoption of technologies to reduce vulnerability to weather through increased investments in areas like small irrigation schemes.</td>
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<td>D.2 Strengthening agricultural research focused on production; creation of extension services and systems for the diffusion, application and operationalisation of research.</td>
<td>will accelerate process of achieving a green revolution in Africa especially in the five food crops that are basic to food self-sufficiency in the region. (Maize, sorghum, millet, rice and tubers) as well as accelerate the building up of a viable industrial base.</td>
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<td>D.3 Creation of rural institutions to support cottage industries and small scale industries with emphasis on indigenous technology, domestic finance, rural infrastructure and women participation.</td>
<td>promotion of integrated rural development; enhancement of the attractiveness of rural areas; promotion of rural technological development; employment generation.</td>
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<td>D.4 Legislation of a clear framework of ownership and participation of the different socio-economic groups such as rural cooperatives, artisans, traders, etc.</td>
<td>will enable popular participation in production, marketing and development in general; and the strengthening of the informal sector and its ultimate integration into the mainstream of development.</td>
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<td>D.5 Establishment of community development institutions especially indigenous NGOs and self-help programmes.</td>
<td>will enable use of direct community labour on a voluntary basis for the provision of rural infrastructure such as feeder and access roads, health centres and dispensaries, school buildings and small irrigation schemes.</td>
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<td>D.6 Greater mass participation in decision-making and implementation of programmes.</td>
<td>greater confidence of the people in their own societies and government; greater commitment to and sacrifices for development; more efficient of highly motivated human resources.</td>
</tr>
</tbody>
</table>