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SUB-SAHARAN AFRICA: ECONOMIC CRISIS AND REFORM

While sub-Saharan Africa appears to be recovering from the worst effects of the 1982-1984 drought, the region continues to suffer from declining real incomes and increasing impoverishment. Under growing pressure from multilateral agencies and mounting financial difficulties, more and more African governments have taken significant steps to reform their economies. Recent policy shifts have increased incentives for agriculture and reformed the public sector. While in some cases output is responding, rigidities in African economies are proving to be more stubborn than many had expected. This paper reviews the present economic problems of the region, and assesses the future potential for adjustment.

Africa's Economic Problems

Sub-Saharan Africa (SSA) barely raised income levels in the 1970s. In the 1980s, after adjusting for the effects of inflation, GDP in SSA grew by only 1.2% a year during 1981-84. A continuing high rate of population increase meant that incomes per capita declined by 2% a year over the same period. Growth rates have varied greatly between countries, however. **Botswana, Cameroon** and **Congo** sustained significant growth between 1980 and 1984, while output per head deteriorated most rapidly in **Côte d'Ivoire, Niger** and **Mozambique**. When the drought ended in much of SSA in 1985, output increased by approximately 3%, compensating for the rate of population growth. Growth rates have varied greatly between countries, however. **Botswana, Cameroon** and **Congo** sustained significant growth between 1980 and 1984, while output per head deteriorated most rapidly in **Côte d'Ivoire, Niger** and **Mozambique**. When the drought ended in much of SSA in 1985, output increased by approximately 3%, compensating for the rate of population growth.

The fall in total output per head in the region since 1980 has been reflected in a reduction in investment as savings have been sacrificed to maintain current consumption. African governments, faced with difficulties in financing growing budget deficits, have been obliged to cut expenditure. Given the difficulties of reducing subsidies and other social expenditure, they have cut back on development budgets. Gross domestic investment dropped to 15% of GDP in 1984, (from 18% in the 1970s), the result of falling domestic and foreign savings. The lower level of foreign savings reflects higher debt service payments as well as reduced inflows of commercial capital. The long-run implications of this decline are sombre indeed.

Because of its central position in most African economies, performance in the **agricultural sector** has a major influence on GDP. In 1984, agriculture accounted for approximately 29% of GDP in SSA as a whole (40% of GDP for the poorest countries). Agricultural production is estimated to have increased by 7% in 1985 as good rains have permitted a sharp increase in yields and in the area under cultivation. Record crops were achieved in **Burkina Faso, Chad, Somalia, Sudan, Kenya** and **Zimbabwe**. However, agricultural production continues to be constrained by civil strife and war in **Uganda, Angola** and **Mozambique** and, despite a national surplus, large local deficits persist in **Sudan**. Agricultural production in 1986 is expected to be close to 1985 levels, although locusts and grasshoppers still pose a threat to crops in East and West Africa.

Despite these recent increases in agricultural production, the last two decades have been characterised by stagnation, and falling output. Disaggregation of agricultural production into food and export crops reveals the extent of the problem. In 1973-84, basic food production grew by 1.2% a year, compared with 2.0% in the 1960s. This lagged behind the average annual population growth rate of 2.9% a year, and even failed to keep pace with the rural rate, then rising by 2.2% a year. As a result, per capita food production fell by 1.7% a year between 1973 and 1984, compared with an annual increase of 0.9% for all low and lower middle-income countries. Of the 39 SSA countries only 10 recorded an increase in food production per head in 1973-1984.

Statistics for agricultural exports are more reliable. By any measure, SSA's performance has been poor. With the exception of tea, sugar and tobacco, the volume of every one of the region's 20 major agricultural exports declined between 1973 and 1984. Of these 20 commodities, only tobacco increased its share of total world exports. Production trends in SSA's major export commodities were mixed in 1985. Output of coffee, cocoa and sugar declined, while cotton, peanut and tea output increased. In 1986, lower world prices were expected to reduce export earnings even further for most commodities, except coffee.

Although **industry's** share of GDP expanded from 25% in 1965 to 31% in 1984 in middle-income African countries, it remains lower than in other comparable developing countries. Efforts to increase manufacturing output have been hampered by low capacity utilisation, shortage of trained manpower, limited domestic markets, inappropriate technology and poor plant design. Scarcity of foreign exchange has contributed to shortages of materials, spare parts and equipment. Real wage costs of skilled labour are relatively high. Despite efforts to increase production, manufactured exports accounted for only 5% of total merchandise exports at the start of the decade — less than in 1965.[1]

These developments have contributed to a deterioration in SSA's balance of payments current account deficit, from 4% of GDP in the 1970s to 7.2% of GDP in the early 1980s. In part, this reflected further sharp falls in the price of many agricultural and mineral exports after a period of recovery in the late 1970s. Individual countries experienced different shifts in their external terms of trade depending on the structure of their exports and imports. Oil exporters were hit very hard by the fall in crude prices, their losses being far greater in aggregate than the gains of oil importers. As a result, both export and import volumes fell throughout SSA, significantly the former more than the latter.

Continuing current account payments deficits increased SSA's outstanding **external debt** to US$62.5bn in 1984, compared with $44.5bn in 1980 and $5.8bn in 1970.

1. ODI: *'Industrialisation in Sub-Saharan Africa'*, January 1986.

Although external debt accounts for a higher proportion of GDP in SSA than it does in other developing countries, its debt service burden, at 18.1% of total exports of goods and services, is about the same, because of a higher proportion of concessional loans. However, its debt service capacity has been threatened by a sharp fall in foreign exchange earnings, which has constrained its capacity to contract new debt. After increasing fairly rapidly in the 1970s, the net flow of external finance from all sources to African countries in 1984 was about US$5.5bn less than in 1980.

The fall in external finance is largely the result of a reduction in private trade credits, foreign direct investment and commercial bank lending, but it also reflects a slowdown in net official aid as Western aid budgets have tightened. The increase in SSA's stock of outstanding debt when external finance is falling is partially the result of the capitalisation of arrears and interest payments as well as a large number of debt reschedulings. Despite these reschedulings (over 32 in less than three years) more than 20 African countries recorded external arrears at the end of 1984. In **Sudan**, debt obligations seem to be unserviceable unless further aid is granted. Even in the **Central African Republic**, whose external debt is insignificant in international terms, debt service accounted for a quarter of central government expenditures.

The Organisation of African Unity (OAU) estimates that the ratio of debt service to export earnings will increase sharply over the next five years, because of lower export revenues and payments on existing obligations to the IMF and World Bank. Rescheduling under the Paris Club is likely to prove inadequate and is, in any case, confined to official and officially guaranteed debt. As a result, a significant component of debt — close to 50% — is left to ad hoc arrangements. Unless effective debt relief measures and substantial resource inflows are forthcoming, resources needed to halt the decline in per capita GDP will have to be diverted to debt service.

The sharp deterioration in SSA's prospects and performance since 1979 has forced many African governments to undertake major policy reforms, many of which have been supported by IMF and World Bank programmes. (Reforms to rationalise the public sector are reviewed in Box 1). It is probably too early to judge the effectiveness of these measures, and it is difficult to separate the impact of policy changes from the influence of extremes of weather, falling oil prices and economic recovery in the industrialised countries. However, it is possible to point to factors that will influence their success or failure.

Agricultural Policies

The serious impact of drought and environmental deterioration on agricultural production in SSA and long-term solutions to the problems this has caused will be reviewed in a forthcoming Briefing Paper and will therefore not be discussed here.

Primary commodity export production

Since the 1981 Berg Report, the World Bank has stressed the need to increase production of primary exports.[2] In particular, the Bank criticises SSA for impeding agricultural export growth by high taxation and inappropriate pricing and exchange rate policies. Although effective rates of tax of well over 50% in many countries cannot easily be justified, since agriculture accounts for a major proportion of GDP, it inevitably forms an important source of revenue in SSA countries. Taxing windfall gains may make sense when commodity prices are high to ensure that the proceeds are saved and invested in accordance with development priorities. But taxes increased during the coffee boom in the mid 1970s, for example, were not reduced when prices fell, depressing output and incomes. In **Tanzania**, rising export taxes and increased marketing costs have reduced farmers' share of the final sale value of export crops from 70% in 1970 to 41% in 1980. Not all countries, however, have raised agricultural export taxes. In **Nigeria**, the percentage of the world price received by farmers increased from 23% to 55% in 1970-77.

The aim has been to restore incentives by raising producer prices nearer to the border price. **Ghana** increased cocoa prices by more than seven times between 1982/83 and 1986/87 as part of a major World Bank supported scheme to rehabilitate the cocoa industry. **Côte d'Ivoire** has increased producer prices for cotton and other

2. World Bank: *Accelerated Development in Sub-Sahara Africa: An Agenda for Action*, Washington DC, 1981.

Box 1

Rationalising the public sector

In the past two decades state-promoted activity in SSA has increased significantly. Public sector expenditures now account for about half of GDP in the region, compared with a third in Asia. There has been a proliferation of state-owned enterprises. In **Kenya** 50 parastatal organisations are involved in agricultural marketing alone. Parastatals were initially intended to play a central role in African development, but experience has been disappointing. State-owned enterprises, operating outside normal competitive constraints and subject to government interventions at all levels — with all that implies in terms of overstaffing — have frequently operated at a heavy financial loss. Inefficient public enterprises, in all parts of Africa, have become a serious drain on public funds, and are now coming under increasing scrutiny from central government and international organisations.

Measures designed to reduce public sector expenditures, and encourage the role of the private sector, now form a standard part of World Bank and IMF packages. In many countries, export marketing parastatals have been disbanded or exposed to competition. In **Somalia** parastatal monopolies on maize, sorghum and imported foods have been ended. In **Zaire** food marketing parastatals have been abolished and **Nigeria** planned to close all six crop marketing boards by the end of 1986. **Gambia** removed restrictions on internal trade in rice and removed the subsidy on imported rice in 1985. However, despite such examples, privatisation has proceeded slowly. A recent World Bank report calculates that only 5% of parastatal organisations have been closed down or denationalised since 1980.

This slow progress is not simply the result of political resistance from African Governments.[1] There are a number of issues that have to be carefully weighed before privatisation can be seen to be a helpful policy. For example, can the indigenous private sector supply the necessary capital, manpower and managerial skill to operate the enterprise more efficiently than the State? Can alternative arrangements be made for the 'fringe' activities undertaken by many parastatals, many of which cross-subsidise goods and services for poor, remote or vulnerable groups? Will privatisation merely substitute a private monopoly for a public one?

Furthermore, parastatal losses are not necessarily an indication of inefficiency, since the functions of parastatals have often been expanded to cover responsibility for research, extension services and project management. Other apparent inefficiencies are often the result of factors outside the control of the parastatals, such as government price and stabilisation policies, lack of skilled manpower and foreign exchange shortages.

The Bank's most recent report[2] tacitly recognises the limits to privatisation in SSA, and recommends policies to improve the efficiency of existing public sector institutions. These include a better balance between accountability and a narrower delineation of responsibilities to match capacity.

1. ODI *Briefing Paper*: 'Privatisation: the developing country experience', September 1986.
2. *Financing Adjustment with Growth in Sub-Sahara Africa, 1986-90*, Washington DC, 1986.

export crops. **Sudan** has abolished its export tax on cotton, set the domestic price near the export price and lowered the exchange rate for cotton exports. Agricultural output has responded favourably.

While the Bank's advice to increase export crop production may be sensible when given to the government of one country with little influence over the world market prices of its exports, it is questionable whether such a policy is valid when applied uniformly across the entire African continent. Commodity export receipts are determined primarily by external conditions, and world demand for many commodities shifts only slowly in response to price changes. As a consequence, policy actions taken simultaneously by several countries to increase exports of the same product may depress world prices and reduce the potential benefits accruing to individual countries. In 1984, SSA accounted for 63.1% of world production of cocoa, 53.9% of sisal and 70% of palm kernel production. It is therefore inconceivable that sustained continental expansion of production would not affect the price.

Food production policies

Whilst there is widespread agreement about the need to increase food output, the World Bank argues that domestic food demand may be met from increased income from export crop production when a country has a clear comparative advantage in export crops. Other observers, including many African governments, maintain that local production for the domestic market is a less risky alternative, providing a guarantee of an assured supply in the event of foreign exchange scarcity. An increase in exports at the expense of food for self consumption in the rural areas may also undermine nutritional standards, already among the lowest in the developing world. By far the greater proportion of food production in SSA is grown by smallholders for their own consumption, whereas some export crops are grown on large plantations by rich farmers, so that policies aimed at increasing food-farmers' returns may have a beneficial impact on income distribution. Such arguments can be over-emphasised, however. In **Kenya**, export crops generate 37% of the total cash value of farm output, but use only 5% of the land. Even in **Senegal**, where groundnuts account for between 40 and 50% of the available arable land, groundnuts are normally grown alongside millet as part of a traditional mixed cropping system.

Nominal producer prices of food have risen substantially in most SSA countries since 1980, mainly as a result of the dismantling of price controls. **Zambia** increased the official price of maize by 142% between 1980 and 1985. In **Senegal**, the official price of rice increased by 105% during the same period. In **Gambia**, the removal in 1985 of consumer subsidies on rice (largely imported) allowed the domestic farm gate price to rise by about 100%. However, the impact of higher food prices has been eroded by higher rates of inflation. In **Nigeria**, the real price of rice actually fell 17% despite a 113% nominal price increase (see Table 1).

Most official price rises have therefore provided some incentive to farmers to increase production, but perhaps less than governments originally intended. Although there are some encouraging signs of increased sales of staple cereals — grain production in 1985 was 14% above its previous peak in 1981 — it is difficult to separate the impact of higher official prices from that of better rainfall.

Ultimately, a major expansion of food production will require increased investment, which will not be forthcoming if resources are diverted into debt-service obligations. While incentives are essential if output is to be increased, they must be co-ordinated with policies to raise the productive capacity of smallholders and to increase the supply of wage goods. Otherwise, the impact of higher real prices will be dissipated by renewed inflation, inadequate storage facilities, wasted valuable water resources, shortages of complementary inputs and the persistence of traditional farming methods. In some countries, e.g. **Ghana** and **Tanzania**, the rehabilitation of the transport system is a first priority when difficulties in the collection and distribution of produce, inputs and wage goods have constrained the expansion of cash crops — irrespective of the price régime.

International Economic Environment

Exchange Rate Adjustment

Currency devaluations form an important part of IMF and World Bank adjustment programmes, but they have been the cause of considerable dispute. Devaluation was one of the reasons for **Nigeria's** failure to agree an adjustment programme with the IMF. Disputes have centred on a number of issues, including the viability of exchange rate devaluation as a means of adjustment, the extent to which it must be co-ordinated with other policies, and the degree of devaluation required in a particular situation.

Many African governments have maintained overvalued exchange rates to hold down the price of imported foodstuffs, partly to maintain real wages and partly to protect the living standards of poor food-purchasers. Domestic inflation put up the average real effective exchange rate for SSA countries as a whole by about 18% between 1975 and 1982, although the rate of appreciation was significantly higher for some countries. In **Tanzania** the real exchange rate appreciated by almost 40% during this period while, in **Ghana**, the real exchange rate almost doubled.

Devaluation remains one of the most controversial issues in stabilisation programmes in Africa, but a growing number of countries outside the Francophone group have devalued their currencies, or adopted a more flexible foreign exchange rate regime allowing their rate to be determined by demand and supply in the foreign exchange market. Experience with devaluation has been mixed. In **Ghana**, a drastic devaluation of the cedi of 90% in April 1983, followed by several smaller devaluations, was not fully reflected in higher prices. The domestic rate of inflation fell from 120% in 1983 to just over 10% in 1985. However austerity measures affecting wages and unemployment have resulted in growing labour unrest, and to raise morale, the government instituted a substantial public sector wage increase in early 1986. The inflationary effect of this measure has prompted widespread speculation about the long-term effectiveness of the recovery programme.

The **Zambian** Government has been particularly concerned about the political and economic costs of the depreciation of the kwacha, which in mid-July 1986 was 70% below its pre-October 1985 level, prior to the introduction of an auction system. Inflation has spiralled, reaching more than 60% per annum by mid-1986, and further eroding living standards already squeezed by the removal of price controls and maize subsidies. Although the auction system has made foreign exchange more readily available, many farmers are finding their livelihood threatened by higher import prices for insecticides, materials and equipment. There has also been opposition from urban consumers and private sector companies adversely affected by sharply increased import costs. Fearing that Zambia's fragile recovery would be threatened, the government introduced a multiple exchange rate system in July 1986 to moderate the volatility implied by the auction system.

This points up a difficulty. Most African countries are highly dependent on imports not only for consumption but also for inputs into industry and agriculture. Devaluation raises costs and therefore prices, thus reducing and perhaps negating any incentive effects. There are thus legitimate reasons for questioning devaluation as a panacea to be rigorously applied in all cases. Fraught with technical ambiguities, devaluation is clearly politically dangerous. Key interest groups are almost inevitably hit — the urban middle classes, industrial capital owners, wage receivers, and traders in the parallel markets.

Access to markets

The agricultural and trade policies of developed countries continue to affect SSA's export prospects jeopardising the implementation of a coherent agricultural strategy. Protectionism and restrictive agricultural policies, such as those pursued by the EEC, with massive subsidies to agricultural producers resulting in over-supply of certain agricultural goods, have depressed world prices. The US farm bill passed in 1986 is another recent example. This gives incentives to US cotton exporters, effectively subsidising domestic cotton production, and is an important factor in the continuing fall in world prices.

Tariff barriers are the most obvious form of protectionism, although non-tariff barriers have become increasingly important in recent years. Most developed countries have escalating tariffs for imported goods — that is, tariffs are higher the greater the value-added content of the product — thus discouraging local processing in SSA. For example, the average tariff rate imposed on cocoa beans by the developed countries is only 2.6%. But the average tariff on processed beans is 4.3% and on chocolate 11.8%. Preferences granted to developing countries, e.g. under the Generalised System of Preferences, may reduce the level of tariffs but do not usually remove escalation.

The effects of the EEC Common Agricultural Policy (CAP) cannot be measured precisely. Thus although SSA sugar cane exporters have gained from access to the EEC market, they have lost markets elsewhere in the world because of CAP subsidised low-priced EEC beet exports.[3] Analyses of the benefits to SSA of trade liberalisation by the industrialised countries conclude that the effect is small. It has been estimated[4] that a 50% reduction in trade barriers in the OECD would result in a net increase in SSA exports of US$87m as the benefits from increased exports ($146m) would be partly offset by higher costs of imported foodstuffs ($59m).

Sustaining the Consensus

Many African governments are now making significant progress in restructuring agricultural incentives and improving public sector efficiency. While the OAU's *Africa's Priority Programme* remains firmly based on its earlier Lagos Plan, it places more emphasis on the role of prices and markets. To this extent, the World Bank and the IMF are probably correct to speak of an 'emerging consensus' and to stress that delay in taking action can no longer be 'justified on the grounds of major disagreement'. But IMF and Bank programmes lack a well articulated long-term perspective, leading some observers to question the long-term viability of the proposed strategies. In particular, the Bank's overriding emphasis on the importance of the price mechanism runs the risk of neglecting infrastructure and other long-term constraints to growth.

Even if the World Bank view is right — namely, that the bulk of Africa's problems lie in a deficient pricing mechanism — this analysis must be applied comprehensively. The failure of *internal price* mechanisms cannot be criticised without simultaneously making the same criticisms of *international* mechanisms. The fact is that the external environment of Africa's economies is as hostile as it is because a number of key actors in the international economy have been reluctant to allow the market to operate freely. Some pertinent examples are — international interest rates, the exchange rate of major international currencies, international trade in foodstuffs, and in manufactures, and, until recently, trade in oil. The President of the World Bank made a forceful plea at Punta del Este for the new round of GATT negotiations to speed the development of genuine trade liberalisation. His message needs to be heard, especially by the USA, EEC and Japan, all of which have ignored the demands of the market at the international level while castigating African countries for ignoring it at the national level.

Finally, questions must be asked about the political sustainability of policies delivering benefits to some but costs to the more powerful. So far the shock of adjustment has been accompanied by relative political stability. This may suggest no more, however, than the capacity of most governments to ride out a squall. Once these changes are seen to be more or less permanent, governments are likely to face mounting political opposition to these reforms — a reflection that makes the lack of a long-run strategy for African development the more serious.

Table 1
Trends in Producer Prices and Yields: 1980-1985 (percentages)

	Nominal producer price change	Real producer price change[1]	Output change
Côte d'Ivoire			
Rice	60	22	9
Maize	0	-26	0
Nigeria			
Rice	113	-17	4
Millet	127	-12	-3
Maize	150	-3	4
Senegal			
Rice	105	17	47
Kenya			
Maize	94	4	14
Tanzania			
Maize	420	43	0
Zambia			
Maize	142	6	26
Zimbabwe			
Maize	112	3	-20

1. Real price calculated as nominal producer price in local currency, divided by the consumer price index.
Source: US Department of Agriculture.

3. See ODI *Briefing Paper*: 'The CAP and its impact on the Third World', June 1986.
4. A Valdes and J Zietz, 'Agricultural protection in OECD countries: its cost to less developed countries', International Food Policy Research Institute, December 1980.
5. See David Wheeler, 'Sources of stagnation in sub-Saharan Africa', *World Development* 12:1, pp.1-21.

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