EUROPEAN PARLIAMENT

DIRECTORATE GENERAL FOR RESEARCH

WORKING DOCUMENT

STRUCTURAL ADJUSTMENT IN THE ACP STATES AND EUROPEAN COMMUNITY INTERVENTION

SITUATION AND PROSPECTS

EXTERNAL ECONOMIC RELATIONS SERIES

W 1

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PRODUCED ON BEHALF OF THE EUROPEAN PARLIAMENT
BY THE INSTITUTE LAREA
(LABORATOIRE DE RECHERCHE EN ÉCONOMIE APPLIQUÉE
PARIS X

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This study has been produced by an independent institute. It was commissioned by the Directorate-General for Research of the Secretariat of the European Parliament. Responsibility for the views expressed herein, which in no way represent the opinion of the European Parliament, lies with the authors.

This study is also being published in French, Spanish and German.

To date, the following have been published in the External Economic Relations Series:

No. 1 (10/1989): European Frre Trade Association (EFTA) and the Community's internal market

No.2 (10/1990): Third World debt - analyses

No. W 2 (3/1992): Trading by the new German Länder with the former Comecon countries in Europe

Published by:

EUROPEAN PARLIAMENT
Directorate-General for Research
Directorate A
External Economic Relations Deparment
L-2929 Luxembourg

CONTENTS

ABBREVIATIONS AND ACRONYMS

ACP:	African, Caribbean and Pacific
ADB:	African Development Bank
CACEU:	Central African Customs and Economic Union
CACM:	Central American Common Market
ECA:	Economic Commission for Africa
ECU:	European Currency Unit
EEC:	European Economic Community
ESC:	Economic and Social Committee (EEC)
GDP:	Gross Domestic Product
GNP:	Gross National Product
IDA:	International Development Association
IMF:	International Monetary Fund
LDCs:	Less Developed Countries
NGO:	Non-governmental organization
ODA:	Official Development Assistance
OECD:	Organization for Economic Cooperation and Development
RAP:	Regional Adjustment Programme (CACEU)
SAP:	Structural Adjustment Programme
SDA:	Social Dimension of Adjustment
SSA:	Sub-Saharan Africa
UNCTAD:	United Nations Conference on Trade and Development
UNDP:	United Nations Development Programme
UNESCO:	United Nations Organization for Education, Science and Culture
UNICEF:	United Nations Children's Fund
UNIDO:	United Nations Industrial Development Organization
US$:	United States Dollar
WEAC:	West African Economic Community
WHO:	World Health Organization

ANNEXES

Annex 1: Structural adjustment
Theoretical models, measurement and evaluation of effects

Annex 2: The social dimension of adjustment

Annex 3: The regional dimension of adjustment

Annex 4: The core elements of social expenditure
Definition, measurement and intervention procedures

Annex 5: Expansionist adjustment

These annexes may be obtained from the European Parliament in Luxembourg : SCH 6/38 - Ext. 4300-2688. They are only available in French.

ABSTRACT

1.1. The economic, financial and social crisis currently affecting most of the ACP countries, especially those in sub-Saharan Africa (SSA), has led to the intervention of the Bretton Woods institutions and the implementation of structural adjustment programmes (SAPs). These programmes involve two aspects: stabilization aimed at short-term restoration of global equilibrium; and structural adjustment aimed at re-establishing the conditions for sustainable medium-term growth.

1.2. The adjustment policies have had mixed results. Assessment of the effects of policies remains inconclusive. According to the World Bank itself, 'all that can be said concerning the adjustment policies undertaken so far (ie. in SSA) is that they have, at best, prevented retrocession'. While adjustment has, in overall terms, led to some restoration of financial equilibrium, its effects on growth have been limited. In contrast, these policies have had a severe social cost involving a falling-back in most development indicators.

1.3. The weakness of this performance may be explained by the extent of the crisis and the existence of imbalances predating the SAPs. It may also be attributed to a number of internal factors; the objectives of the programmes are at times contradictory. Certain measures which appear coherent in the national context may prove to be insufficiently adapted to conditions of formal or informal regional interdependence. The macroeconomic models underlying adjustment policies are often minimally capable of integrating the specific economic and social circumstances of the African countries. Measures may also be circumvented by social agents and governments. These internal factors are compounded by an unfavourable international environment with regard to prices, interest rates and funding capacities.

1.4. The social effects of adjustment have given rise to various proposals on the part of the bilateral and multilateral bodies. The general intention of these proposals is to modify the terms of adjustment with a view to protecting the most vulnerable groups, encouraging more expansionist macroeconomic policies, altering the implementation rhythms of the plans concerned, etc. Some of the proposals (such as the SDAs) have been integrated into the SAPs, which have, with experience, become more pragmatic. A consensus has evolved to the effect that adjustment programmes should be differentiated and 'made-to-measure', should take realistic account of the economic and social context of the countries concerned, must be internalized by those responsible for their implementation and must be implemented at a supportable rhythm. The reforms should be acceptable in social terms and should encourage regional cooperation and integration. Consideration is being given to the introduction of concerted adjustment measures at regional level.

2. In view of its history and its specific relations with the ACP countries, the community of Twelve has a certain obligation to define a clear position on adjustment. Four aspects may be considered essential: the first three fall within the standard adjustment model and are aimed at increasing its efficiency; the fourth, however, is based on a more voluntaristic concept of growth and development.

2.1. At Lomé IV, the Community rallied to the concept of adjustment. It is essential that it proposes a specific intervention system which will enable the ACPs to continue to guarantee minimum social provision. The evaluation of

the 'core elements' which cannot be reduced requires an adapted accounting framework (ie. satellite accounts). The definition of relative priorities with regard to social needs should arise out of a cost-benefit economic analysis supplemented by more sociological considerations. On the basis of needs detected by warning indicators, the Community could contribute to either compensatory financing in respect of the core elements or to direct financing, thus enabling the ACPs to debudgetize certain social expenditure.

2.2. The Community can play a strategic role ensuring that adjustment favours the regional integration of the ACPs. Three principal measures may be proposed: (a) action to enhance interdependence between economies by liberalizing the markets in goods and factors on a regional basis, while taking account of the timescale for the transition to a more open economy; (b) encouragement of coordination of global and national sectoral policies, thus bringing about concerted adjustment; (c) institution of cooperative stabilization and concertation mechanisms on the basis of joint sectoral projects (eg. regional regulatory stock management, support for regional convertibility on compensation boards, etc.).

2.3. The SAPs are accompanied by economic conditions. It must be determined whether the Community's intervention should also be conditional on respect for certain more political criteria, such as respect for human rights and multi-party democracy.

2.4. The structural adjustment programmes under way in the ACPs imply a considerable cost for the international financial community and the countries concerned, while their actual efficiency remains limited, especially in the LDCs. Adjustment can only succeed if the whole internal and international environment is transformed. It is the Community's responsibility to take part in the construction of <u>an alternative model of adjustment which does not yet exist</u>. Measures such as financial reform, reduction of the role of the state and market liberalization must be conceived within a stabilized framework based on respect for the rules, together with stabilization mechanisms aimed at reducing risks. The transition from a rentier economy to an accumulation economy requires economic rationalization, improved management and support for private initiatives, as well as integration of the 'incubation period' for investments and training. The Community could play a vital role by encouraging an <u>expansion-oriented form of adjustment,</u> which would permit a <u>favourable</u> resolution of the crisis and lead to renewed growth. Measures to guarantee certain prices and external markets for the low-income countries could make it possible to finance <u>diversification funds</u> in respect of exports. The less-developed ACP countries, whose economies are currently centered on regressive products with low value added, could also benefit from Community aid aimed at enhancing their comparative advantages and extending their markets into Eastern Europe. It also appears essential to introduce regional protection for certain basic consumer goods, given the risks that the agricultural and industrial productive structures will become outdated and the non-availability of short- or medium-term alternatives for their conversion.

<u>Whatever the cost, the challenge must be faced: Africa must be rescued from its present state of isolation and 'silent chaos'</u>.

PART I

STRUCTURAL ADJUSTMENT IN THE ACP COUNTRIES: A CONTROVERSIAL SITUATION

1.1. Structural adjustment: a requirement linked to the scale of the crisis and the financial imbalances in the ACP countries

The scale of the crisis in the ACP countries

The scale of the crisis and its manifestations vary from country to country. However, beyond the specific national factors, it may be considered to be caused by a certain number of conjunctural factors (the oil price shocks, high interest rates, etc.) and structural determinants: the population explosion and mass urbanization, small-scale, unproductive agriculture, an industrial base of limited efficiency, dependence on imports of basic products, overwhelming concentration of exports on primary products, etc. In addition, the crisis has been markedly aggravated by economic policy options and administrative errors.

The 1980s were characterized, on the one hand, by a fall-back in the economic and social indicators, and, on the other, increasing internal and external financial imbalances in sub-Saharan Africa (SSA). Only a small number of countries, of which Mauritius offers the most prominent example, have managed to escape the pattern of deflationary spiral plus recession management.

The crisis is, above all, economic, and the indicators are sufficiently well-known for no more than a brief summary of the main factors to be required here:

- GDP per inhabitant in SSA has fallen, from US$ 854 in 1978 to US$ 565 in 1989[1]; over the same period, the number of LDCs in Africa rose from 17 to 28. Real growth, which had accompanied population growth over the period 1973-1980, plummetted to 0.5% per annum between 1981 and 1989. Seven out of 22 low-income countries experienced negative growth over the first half of the decade.

- Declining income has been accompanied by a fall in domestic savings (from 17% of GDP in 1980 to 10% in 1987). The stagnation of demand and the reduced prospects of recovery have led to a falling-off in investment.

- Despite certain encouraging developments, the long-term growth in agricultural production continues to fall short of population growth. The process of deindustrialization has been accelerated by the reduction in revenue and public expenditure.

- The share of SSA in world trade has been continuously falling since the 1960s (it was 1.2% in 1987, as against 2.9% in 1960 and 2.5% in 1980). Imports have fallen by 30%, thanks to the falling-off in growth and the

[1] Given the unreliability of the information systems concerned, certain macro-economic and financial data should be considered as having only relative status; an important regulatory role is played by certain informal dynamic factors which are not taken account of in the official statistics.

difficulty of obtaining hard currency. With its regressive specialization in basic products with dubious future prospects, Africa is seeing its share of external markets reduced. Export prices are estimated to have fallen by some 30% between 1985 and 1989.

The crisis is also financial.

- The long-term debt, which stands at approximately US$ 200 bn, is 19 times higher than in 1970, at todays values. It is now higher than the total GDP of SSA. Debt servicing before rescheduling corresponds to approximately one-half of the value of exports.

- While the rescheduling mechanism (the last ten years have seen almost 100 cases) means that the debt tends to become self-renewing, the level of financial transfers to Africa was actually fallen: both net private transfers and IMF transfers have become negative. Net World Bank aid fell in both 1990 and 1991.

- The financial institutions have broken down or are suffering from severe malfunctioning. The crisis is spreading to the areas of savings and credit distribution. It is also affecting the non-banking financial sector (insurance companies and pension and social security schemes).

The crisis is also social. Immediately following independence, there was an improvement in the social indicators (e.g. life expectancy and education and health standards). However, there has been a decline in these indicators in the 1980s. The societies concerned seem in many respects to be incapable of guaranteeing their own long-term conditions of human and ecological reproduction.

The crisis is, finally, political. African societies are still characterized by rentier attitudes, especially as regards external relations, while income sources are tending to dry up and social needs are increasing. The state in Africa is conceived in terms of an essentially paternalist model, under which political power is based on the distribution of favours to client groups. These forms of power have now to a large extent lost their legitimacy.

These symptoms apart, from a historical perspective the economic crisis may be seen to be, simultaneously, the crisis of the exhaustion of the post-colonial model of the rentier economy. This model was based on a combination of external aid and protection of the foreign-owned and public modern sector. It was essentially powered by exports of basic products. Since the early 1970s, this model has been running out of steam, at a rhythm varying from one economy to another: agricultural exports have been growing at a slower rate than imports, and the import substitution process has been running down, while public and quasi-public expenditure has tended to rise under the double pressure of population growth and distortion of the basic functions of the State.

The disturbances in the international environment following the first oil price shock revealed the low viability of these economies in international terms. The first shock (1973-1974) was absorbed via external and internal debt; however, the loans granted, far from stimulating the emergence of new dynamic processes, did no more than postpone the day of reckoning. The second shock (1979-1980) brought on the explosion of the crisis. Successive reschedulings enabled the countries to keep their heads above water.

Adjustment then appeared on the horizon as the necessary response to the inexorable widening of imbalances.

The SAPs: objectives and measures

The adjustment programmes comprise **two aspects**: stabilization and structural adjustment (cf. Annex I):

- The aim of the stabilization measures is to bring domestic demand into line with external resources with a view to restoring the overall balance. This requires a coherent accounting framework capable of producing financial equilibrium on the basis of standard models (cf. Annex I).

- The structural adjustment programmes (SAPs) imply a more dynamic perspective regarding structural reform and the institution of new forms of administration and new rules. They are aimed primarily at altering relative prices and reforming institutions with a view to making the economy more flexible and competitive and guaranteeing a sustainable long-term growth.

The **diagnosis** of the institutions responsible for adjustment obviously varies from country to country, but certain constant factors make it possible to propose a general explicatory model.

In the first phase, the analysis of the crisis requires the identification of the 'white elephants', bureaucratic waste, the universal presence of corruption and parallel markets, the rentier incomes of the ruling classes, etc. Blockages of supply may be explained essentially in terms of incorrect resource allocation and insufficient levels of savings and investment. The inefficiency of the productive systems and the insufficient external competitiveness point to a distortion of basic market rules. Existing policies have given priority to import substitution, redistribution and the public and quasi-public sector, and have protected certain privileged groups; at the same time, attempts at implanting industries and large-scale projects have failed, and the bureaucratic organizations have proved inadequate.

The internal and external financial imbalances are interpreted by the Bretton Woods institutions as being the results of distortions of policy or the delayed effects of the same policies in the context of external or internal disturbances. They are thus explained in terms of the excess of demand over supply, internal discriminatory measures (e.g. price controls and subsidies) or similar external measures (over valued exchange rates, exchange controls, protectionism). The protected (non-tradable sectors) are considered to have been privileged over those sectors where competition is permitted (the tradable sectors). Public expenditure is seen as having had a squeezer effect on the private sector.

Certain internal imbalances are structural, while others arise from economic policy measures. External disturbing factors (e.g. the unfavourable evolution of the terms of trade, higher interest rates, etc.) are certainly among the explicatory factors, but they are seen as being exogenous, and the imbalances which they create in the ACP countries are explained in terms of delayed adjustment.

The reform programmes are based on certain **principles:**

- greater openness to the world markets and multilateral liberalization. This is based essentially on the principle of comparative advantage, as well as the free movement of factors and sensible exchange rates. The aim is to increase external competitiveness and the profitability of export sectors while favouring the sectors open to competition.

- internal liberalization. The main institutional reforms are aimed at ensuring a return to the rules of the market. They concern the liberalization of trade, modification of the role of the state, the slimming down of public and quasi-public enterprises, the dismantling of subsidies and stabilization bodies and the rationalization and privatization of the public sector. These measures are aimed at increasing efficiency, removing squeezer effects and reforming public finance.

The instruments of economic policy should form a coherent policy package, but can only be instituted on a gradual basis. They have a staggered effect over time, and should therefore be phased in on a logical basis (cf. Annex I).

The various components of stabilization policy are aimed at achieving balance of payments equilibrium, reforming public finance and controlling inflation. They are based primarily on the instruments of exchange rate policy and monetary and budgetary policy.

The economic structural reforms are intended to have the result of improving supply via increased productivity. They include financial stabilization at sectoral level, as well as privatization; the most important aspect, however, is provided by the structural measures. The adjustment policies have progressively widened their time-scale and expanded their scope of intervention via the integration of structural policy and institutional development.

The **implementation** of the programmes has evolved over time. As the aid donors and the ACP countries have absorbed the lessons of experience, the measures have become more progressive, less standardized and more pragmatic. External financial aid can have a beneficial effect provided performance criteria are respected:

- structural adjustment loans, which constitute an extension of programme loans, can be provided rapidly. In the countries of the franc zone, such loans serve primarily to finance budget deficits. Outside the france zone, their main function is to finance imports, and, indirectly, the national budget, via the counterpart funds. In contrast to the structural adjustment loans granted by bilateral donors, those granted by the World Bank are essentially conditional on programme implementation.

- the counterpart funds should, in principle, be utilized for measures to reduce the principal deficits, the financing of the counterparts of certain projects and repayment of the debt of public enterprises.

1.2. The ambiguous results

In order to evaluate the effects of policies, it is important to differentiate the stated intentions of the programmes from their actual implementation. Account must also be taken of the timespan of the processes concerned. Finally, it is essential to be aware that the unfavourable international climate, and in particular the depreciation in primary product prices, exercises a crucial role in the ACP countries, and that, ultimately, debt 'overdetermines' adjustment. Performance analysis necessitates differentiation of the impact of the crisis from that of adjustment, a clear distinction between indicators relating to means and indicators relating to results, and awareness of the sequence and intensity of measures (cf. Annex I).

In the case of sub-Saharan Africa, the application of adjustment measures has produced varying results in the different countries. According to the World Bank report (1989, 3), 'all that can be said concerning the adjustment undertaken so far (i.e. in SSA) is that they have, at best, prevented retrocession'. Certainly, the World Bank/UNDP report (1989, 4) shows that reforming countries obtained, between 1984 and 1987, better results than non-reforming countries; this assessment of performance, however, is based on statistics of a highly provisional and partial nature, which have been criticized, in particular, by the ECA.

Adjustment policies are implemented in a context of recession leading to the worsening of most of the social indicators. While results have been obtained with respect to current deficits (in the balance of payments and budget context)[2], little progress has, in general, been achieved as regards growth, while the evolution has been highly negative in the case of basic social services.

Adjustment policies seem to be incapable of resolving international imbalances and, in particular, of reducing the burden of a debt which is tending to acquire a life of its own. The effects of policies vary according to the specific characteristics of the country concerned: they may be inland, island or coastal states, micro-nations or members of wider groupings, their economies may be specialized in a number of products or not, they may be agricultural or mining based, and may or may not belong to a monetary zone, etc.. Thus, the countries of the franc zone are currently going through an <u>adjustment in real terms</u>; as a result, in contrast with the African countries undergoing adjustment outside the franc zone, they are characterized by low inflation, low budget deficits and positive real interest rates but, at the same time, in recent years and owing to the appreciation of the real effective

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[2] According to P. Jacquemot and A. Assidon (1989, 1), devaluations have tended to have a stabilizing effect on state financial operations and to have reduced inflationary tensions; however, 'the repercussions on the trade balance and the balance of payments have been considerably less and indeed, in certain cases, negative'.

of exchange rate, by a lower savings and investment rate as well as lower growth (with respect to the period 1979-1988).

Financial adjustment

Experience shows (see World Bank 1989, 4) that stabilization and adjustment policies tend to reduce imbalances such as budget deficits or inflationary tensions. It is also important to distinguish between 'upward' or expansionary adjustment (involving increases in revenue, exports or savings) and 'downward', recessionary adjustment (entailing cuts in spending, imports and investment). Thus, in the 1980s, Mauritius, Zimbabwe and Kenya have been characterized by adjustment leading to growth; the experience of Ghana, Burundi or Malawi has been more mixed; while, in contrast, Madagascar, Sudan, Zaire and Zambia have undergone regressive adjustment[3].

Those low-income countries which embarked early on a programme have managed to improve their situation with regard to the balance of payments or to public finances. These results, however, have been largely dependent on measures taken by the aid donors. In contrast, the middle-income countries, especially those of the franc zone, have been affected by the fall in primary export product prices and by the burden of debt servicing, as well as by delays in the adjustment process. They are experiencing difficulty in restoring financial equilibrium.

The effects on growth

The overall effect depends on the specific social and economic structures concerned:

- countries benefiting from a diversified production system and a variegated social and technological fabric have experienced positive resource reallocations which have favoured growth. The semi-industrialized countries which have obtained the best performances are those which have adjusted most rapidly. Absorption of the programmes has been easier in the sense that the negative effects on employment, growth or poverty levels have been only of brief duration.

- in contrast, the least-favoured countries have, in most cases, experienced a retrocession which has only been partially offset by external public funding: such measures as alignment with world prices and the introduction of profitability criteria and market rules have at times been phased in very quickly, despite the extreme vulnerability of the productive systems.

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[3] The Adjustment Lending Report (1989, 3), which assesses ten years of structural adjustment, points to the variable relationship between balance of payments adjustment and the GNP growth rate. 30 countries which have implemented adjustment policies, on the basis of comparison between the years 1982-1987 and the three preceding years: in five cases, there was an improvement in both the GDP growth rate and the balance of payments deficit; in one case (Uganda), both indexes deteriorated; and in the remaining 24 cases, one indicator improved while the other deteriorated.

- only a small number of ACP countries, such as Mauritius, have returned to the path of growth. In most cases, however, there is now a certain improvement in agricultural production and a limited recovery of external competitiveness, at least in the case of the countries outside the franc zone. These countries have, in the 1980s, received the fallout from three major shocks: the deterioration of exchange rate terms, high interest rates on the world markets and the depreciation of the currencies of their larger neighbours. The Sahel countries have also suffered from the effects of drought.

The policies implemented are aimed at encouraging the productive sector and reviving savings and investment. The results in the ACP countries are contradictory. Public savings have diminished (especially owing to the increased levels of debt servicing), while the recovery of private savings has been limited. In general, there is a decline in public expenditure on investment and on imports of capital goods. In the vast majority of ACP countries, the fall in capital formation - a factor which is, nonetheless, essential for the long-time resumption of growth - has been greater than the fall in consumption. This reduction, together with rising instability, has tended to encourage short-term attitudes giving priority to profitability criteria over calculated investment risks. In an international climate of high real interest rates and allocation of capital on the basis of efficiency criteria, the situation is characterized by a decline in the profitability of projects and the deterioration of certain areas of the productive apparatus, especially in the industrial sector.

The efficiency of measures depends on the flexibility of the economy and the rapidity of response of reply, but also on the availability of external financing (one may here point out the success of the 'star pupil' Ghana, which has benefited from substantial international transfers).

The social effects

In general terms, the implicit model may be considered to be based on the deterioration of the situation of those groups which are subsidized and protected vis-à-vis the market and on the improvement of the position of agents in those sectors open to competition and oriented towards exports, especially rural producers. In particular, the exchange rate is an instrument for the adjustment of relations between country and city and agriculture and industry: assuming that high-income groups, especially in the cities, are relatively high consumers of imports and that the industrial sector is a major user of imported inputs, it follows that exchange rate depreciation is likely to result in transfers between geographical areas, sectors and social groups.

In order to evaluate the social effects of adjustment, they should be compared with the costs of non-adjustment. In general, there is an overall tendency for revenue to fall owing to deflationary measures and, at the same time, a shift in the distribution of revenue. Rural groups linked to the private sector and working in an export-oriented context, as well as agents engaged in 'tradable' activities, are enjoying higher incomes at the expense of public-sector and urban groups who consume imported products and produce 'non-tradable goods'. Any analysis of the social effects will, however, be extremely complex. Account must be taken of the possible role of private spending, and the analysis must integrate the transfer processes and the marginalization of vulnerable groups.

The regional effects

Adjustment programmes can, in principle, play a positive role in the revival of regional cooperation and integration. They can alleviate internal and external constraints and reduce the effects of the financial crises which tend to block integration; they are, however, conceived within specific national contexts, at different times and in different sequential orders. The resultant time-lags mean that convergence of national policies is difficult to achieve.

In the context of adjustment and the external marginalization of the ACP countries, there has been a marked reduction in official intra-regional exchanges, while the main regional cooperation organizations have all but disappeared (as may be seen from the respective crises of the WEAC, the CACEU and the CACM).

1.3. The multiple causal factors

While the limited, or even perverse, results obtained may be explained to some extent in terms of the nature of the programmes and the resort to cosmetic measures, it nonetheless seems clear that the main responsibility is borne by external factors.

Internal factors affecting adjustment

A number of causal factors may here be invoked. In particular, five may be mentioned:

(a) ambiguous objectives;
(b) the inadequacy of certain measures;
(c) the limits of the explanatory models;
(d) the attitudes of the economic agents and of civil society;
(e) the tendencies to falsification and circumvention of measures.

(a) The adjustment plans are by no means always internally coherent, and there are <u>conflicts between objectives</u>. Stabilization may thus enter into conflict with the resumption of growth. In the semi-industrialized countries, stabilization is generally a necessary purgative measure for ensuring the mid-term resumption of growth. In the least developed countries, it may lead to a process of retrocession. The 'downward' adjustment of the main variables (imports, investment, public expenditure) tends to reduce the level of demand, exports and production; this has a retroactive downward effect on the adjusted variables themselves (cf. Annex V).

Wage cuts enter into conflict with the need to improve the efficiency of services. Cuts in public sector salaries generally lead to reduced incentives and to substitution activities engaged in to guarantee minimum income levels. Thus, in most of the ACP countries there has been a reduction in the quality of the health and education services. Given that these areas of social expenditure are central to the national budgets, conflicts of objective arise between the macroeconomic SAPs entailing staff and wage cuts and the sectoral SAPs which affirm the need to maintain social indicators at existing levels.

The aim of increasing farm prices may come into conflict with the desire to improve income levels for the very poor. Farm price increases, which are generally linked to devaluation, are intended to boost agricultural supply and to reduce the income gap between country and city. They tend to accentuate inequalities in the cities, since they mainly affect the prices of the food products consumed by the poorest groups. In the country, they tend to widen the gap between farmers who produce a marketable surplus and the landless or marginal suffering from food shortages; the outcome may be further emigration from the countryside.

The reform of state finances implies increased fiscal and para-fiscal revenues - a requirement which usually conflicts with external liberalization or the phasing out of stabilization agencies.

(b) Certain adjustment measures which are conceived in the national context may prove inadequate in the light of the formal and informal interdependences between economies: certain countries exercise asymmetrical effects, owing to their weight, geographical situation or size. Thus, adjustment policies undertaken by Nigeria or by Côte d'Ivoire have a determining effect on the situation of their immediate neighbours. In the absence of any coordination of national policies regarding customs matters, prices or exchange rates, policies may be distorted (as in the case of the trade in groundnuts, rice and sugar, between The Gambia and Senegal), and thus lose their efficiency. The existence of institutionalized regional groupings (i.e. monetary, customs and economic unions) limits the number and coherence of the standard instruments of adjustment policies. Furthermore, the application of the same export policies to the same primary products may sometimes lead to 'composition errors' tending to lower prices by reason of excessive supply (a recent example is provided by the competition between Malaysia and Côte d'Ivoire on the cocoa market).

(c) The standard macro-economic models utilized by the Washington institutions constitute useful frameworks for coherence; they generate information and have an essential educational role. Nevertheless, they exhibit marked limitations as regards the African countries, given their modes of insertion into the international economy and the extreme heterogeneity of their productive systems. The accounting balances produced may thus yield a static, statistically-based picture, which fails to take account of the actual levels of equilibrium.

Macroeconomic models based on standardized, homogenized information with comparative purposes in view are not fully capable of integrating the links between economic behaviour and social structures, representing the cultural dimension of economic acts or analyzing heterogeneity, market segmentation or unevennesses in productive systems. Several examples may be offered to demonstrate the limits of the models underlying policy.

The consideration of price elasticity in respect of supply of agricultural products has yielded mixed results. The results remain uncertain, owing to the great volatility and diversity of prices. Prices are one significant variable among others within agricultural systems. Their effects vary in accordance with the region or type of farming; they differ according to whether producers obtain their inputs on the official markets or on the parallel markets, or else within the terms of a rationing economy. There are contradictory situations and perverse effects. Thus, real positive interest rates and real producer prices in agriculture are relatively higher in the countries of the franc zone, whereas, in the same countries, the savings and growth rates in agriculture are relatively lower than in the non-franc zone countries (at least for the period 1979-1988).

- The question of effective demand and public investment is seen as secondary by comparison with that of productive efficiency. In many developing countries, there is certainly wastage and over-investment in the public sector, but one should not underestimate the stimulating effects of public investment on private investment or the multiplier effects of urban or public demand on rural and informal activities. Obviously, the reduction of public investment and lower urban demand have downward multiplier effects, triggering off a regressive process (cf. Annex V).

- Overall, the diversity of the responses of the agents to the measures of stimulus is either underestimated or incorrectly assessed. Thus, internal liberalization measures imply an enhanced role for private investment; this presupposes a stable environment, low risks (especially regarding exchange rates), viable demand levels and precisely that protectionism which the adjustment measures are intended to reduce. Deregulation implies, not the replacement of a public monopoly by private oligopolies, but the introduction of free competition. However, in the case of fragmented or small markets, trade in many strategic products (e.g. cereals, pharmaceuticals, etc.) is frequently controlled by oligopolies connected to the state (as in the case of the 'Mouride' networks in Senegal).

The African societies based on specialization in primary products are, then, in a dependent and vulnerable position vis-à-vis the outside world; they are inadequately coordinated at the level of productive structures, and suffer from spatial fragmentation, limited supplies of hard currency and rudimentary markets. They are evidently far removed from the theoretical reference models on which the SAPs are based. There is no genuine market in factors; the land is not alienable; most agents are outside the credit system; and there is little or no market in inputs. Only the labour factor may, at the very most, be considered as pertaining to a market. The factors of production are characterized by low mobility, with the exception of unskilled labour. The existence of disguised unemployment prevents wages from being the variable of adjustment between supply and demand as far as employment is concerned.

(d) The attitudes of agents and of civil society may also constitute obstacles to adjustment measures. Most economic activities take place in the informal sector and involve attitudes of economic and social groups which are largely unaffected by the incentives of the adjustment policies.

The informal sector plays a vital role in the satisfaction of essential needs, job creation and income distribution. It is a regulator of the crisis. The effects of the adjustment programmes on its dynamic are complex: while the more marginal activities tend to expand, the more capitalist activities directly linked to the modern sector tend to be affected in a recessionary sense.

In the financial area, the breakdown of the official system of intermediaries is leading to a development of parallel and informal networks. The adjustment programmes aim, by liberalizing the economy, to mitigate the effects of this dual financial system, which is, however, paradoxically in fact now increasing its presence. The official financial system is now marked by a tendency towards international activities (import/export), while there is an increase in informal activities which are scarcely capable of financing investment in agriculture, or, indeed, even in small-scale production.

(e) The various forms of falsification tends to encourage circumvention of the measures. Adjustment loans are seen as little more than blank cheques, while policies are formally, but not genuinely internalized by the authorities responsible for implementing them. This may lead to cosmetic measures, 'stop-go' policies and continual changes of policy. Thus, Nigeria liberalized imports before introducing restrictions (in 1984), then abolished import licences (in 1986), and went on to increase customs duties (in 1988). Zambia reduced its protection levels in 1985, and then increased import controls and imposed entry restrictions, while at the same time introducing a bidding system for hard currency, which it finally abandoned in 1987.

There are also inconsistencies between measures. Several countries have adopted liberal investment codes while introducing discriminatory measures concerning property rights. The anticipations of agents also frequently cancel out the effects of measures: inflationary anticipations lead to the modification of the nominal exchange rate but not of effective parity; loans co-financed by international bodies are anticipated on a planned basis, etc.

The state of financial collapse characterizing most of the ACP countries produces governments lacking in coherence and autonomy. The periodic nature of consultations, the need for transparency in public accounts, the allocation of counterpart funds and substitution measures affecting civil service payrolls combine to create a progressive displacement and erosion of sovereignty (cf. the criticism of the ECA).

There are thus conflicts with regard to procedure, status and legitimacy between the adjustment programmes and the strictly national legislation (e.g. in the case of development plans). The former are no more than policy documents adopted at interministerial councils and drawn up primarily by international experts; however, they are imposed on the national authorities and take precedence in practice over national legislation.

The negotiations concerning the confirmation agreements with the IMF and the SAPs with the World Bank are perceived by the national authorities as external 'impositions' tending to undermine national sovereignty. This affects the legitimacy of the authorities, and creates discontinuities in economic policy and discourse, as well as open conflicts or hidden resistance. The process is not innocent, as government authorities frequently take cover behind international bodies to apply unpopular measures.

There is thus a growing risk of the creation of divided societies in which civil society would be based on the informal economy, while the prerogatives of the state would be exercised from outside.

Factors related to the external environment

In view of the great vulnerability of most of the countries concerned vis-à-vis the international economy, their performances would seem to be more conditional on the global climate than on internal measures. The world climate is now particularly unfavourable to the economies undergoing adjustment. Prices of tropical agricultural raw materials and of mining products are depressed: real prices for basic products have now sunk to the level of the 1930s. Real interest rates remain high, and the banks are unwilling to contribute further funding. Funding by multilateral bodies has reached the negative situation in which repayments exceed payments. The end of the cold war has reduced the interest of aid, encouraging substitution favouring the countries of Eastern Europe.

The theoretical models underlying open-door policies (the theory of comparative advantage, the neutrality of protection, exchange rate equilibrium, etc.) suppose the absence of distortions in respect of external markets, as well as alternatives for production and specialization for those sectors which are not in a condition to compete on the international market. There is a need to determine what the alternatives really are (in terms of cost, time-scale and capacities) for a groundnut-producing country like Senegal, for countries producing sorghum millet and rice like the countries of the Sahel, or textile producers such as Zaire and Cameroon, when they have to face competition from food products or cheap clothing at artificially low prices.

Given their inability to diversify their exports and concentrate on profitable sectors, the African economies are bearing the brunt of the world depression in basic product prices, despite such stabilization measures as STABEX. To a large extent, the international environment thus determines the sequence of the adjustment measures and the deflationary spiral: reduced exports make it impossible to honour debt-servicing commitments, thus necessitating rescheduling. This increases the outstanding balance, and, ultimately, requires higher payments. Stabilization has a braking effect on imports, and this in turn reacts back negatively on production and exports, etc. (see Annex 5).

1.4 The evolution of the SAPs and the reforms under way

There is no question of denying the need for adjustment measures for countries suffering from explosive financial deficits, significant capital flights and speculation on the parallel markets, and which are also squandering financial resources while certain groups are living on unearned income in a climate of economic stagnation. Equally, it does not follow that alternative policies are always effective (as witness the failure of the Austral Plan in Argentina or the Cruzado Plan in Brazil, which failed to take account of external constraints). It is essential, however, to integrate factors which have been neglected and to modify the implementation of the reforms.

The evolution of the SAPs

The bilateral and multilateral bodies are aware of the costs of adjustment, the importance of 'contributing to drawing up compensatory programmes for the populations affected' (World Bank (1986,2)) and the need for a second generation of structural adjustment programmes. Since 1986, action programmes aimed at alleviating the social costs of adjustment have been implemented by the World Bank in liaison with the UNDP and the ADB for Africa. In certain quarters it is considered vital to return to the priorities of the anti-poverty campaign of the 1960s, to reverse the existing order of priorities and to forge a link between social and development objectives and the goals of financial stabilization.

This is not a purely ethical question, but is also economic. It is hardly possible to create lasting solutions to monetary and financial imbalances at international level on the basis of measures involving the exclusion, marginalization or pauperization of the bulk of the populations concerned.

The new adjustment programmes take greater account of internalization capacities, with a view to preventing cosmetic applications; they emphasize the informal sector and the social and regional dimension of policy. Certain SAPs are envisaged at regional level (CACU and WEAC), with a view to improved coordination of national policies. The sectoral adjustment loans place greater emphasis than do macroeconomic loans on the recovery of production and the reconstitution of the priority sectors. Programmes are now becoming less standardized and more 'made-to-measure'.

Time-scales are being extended, with the result that the planning of public investment is now frequently conceived on a sliding basis over a three-year period (as in the case of Senegal). The links created between the plans and the investment budgets instituted under national financial legislation permit improved coordination between development strategy and macro-economic regulation. Since 1986, the structural adjustment facility has been based on a model horizon of three years and a total coverage of five years.

As the various international bodies have progressively taken account of adjustment (especially the EEC, with Lomé IV, and the UNDP), the SAPs have been based on a less exclusively short-term perspective, and have come to integrate different dimensions of development (the regional and social aspects, the role of local undertakings, etc.). Strategies for sustainable and equitable growth now insist on the social and environmental dimensions. Thus, the World Bank, in liaison with the UNDP and the ADB in Africa, has instituted actions aimed at protecting vulnerable groups via compensatory measures: compensation for workers made redundant (Guinea, Senegal, the Comoros); training programmes (The Gambia), food aid for dismissed workers (Central African Republic, Mauritania), public works projects (Madagascar), loans to small producers (Côte d'Ivoire, The Gambia, Mauritania, Guinea), actions with NGOs (Guinea, Senegal), etc.

Main areas of reform

Reforms have been proposed in several areas with a view to modifying the terms of adjustment.

Thus, the Lomé IV agreements define six conditions for the ACPs: secure food supplies, a supportable rhythm, programmes differentiated by country, internalization of measures, and consciousness at all stages of the regional and social dimensions.

According to UNICEF (1987, 8), there is a need for more expansionist macroeconomic policies, microeconomic policies targeted on the less-favoured strata (the informal sector, women, small producers, etc.), restructuring of production for vulnerable groups, continuous monitoring of the social indicators and encouragement of compensatory programmes and support programmes for the various social sectors.

According to the UN's ECA (1989, 5), structural adjustment aimed at recovery and social and economic transformation requires selective policies and redistribution measures, as well as the reorientation of priorities with a view to improved satisfaction of basic needs.

According to UNCTAD (1989, 7), the obligation to produce results imposed by the practice of conditionality should be abolished, and specific policies for the LDCs must be devised.

In view of the 'fatigue' affecting adjustment, there is relative agreement that the terms should be modified, as follows:

- greater attention should be paid to specific and concrete situations (e.g. the capacities and time schedules of undertakings in respect of adaptation);

- action to achieve internalization of reforms via the fostering of analytic capabilities and autonomous information systems;

- differentiation of the objectives of growth and development: national identity, regional cooperation, income distribution, secure food supplies, etc.;

- modification of implementation rhythms via greater emphasis on more progressive approaches which will encourage response capabilities.

The example of the SDA[4]

The 1980s saw considerable evolution in the SAPs: the initial conception in terms of stabilization has progressively given way to structural adjustment policies. Most recently, the social dimension of adjustment (SDA) has been emphasized, leading to greater attention to the social effects of adjustment, the advocation of compensatory measures and evaluation of the level of minimum social expenditure and investment in human capital required for growth and the restoration of financial equilibrium.

It is, however, a very different matter to take account of the SDA via compensatory measures, rather than via the ex ante evaluation of human capital needs:

- In the ex post conception, the sequence is financial, then economic, then social. The method is to identify the social effects of adjustment and to compensate for their effects a posteriori.

- In the ex ante conception, the sequence is social, then economic, then financial. The approach is to define the level of human investment and minimum satisfaction of social needs required for the resumption of growth and the long-term reduction of financial imbalances. This approach also requires consideration of the compatibility of such measures with the SAPs.

The actual practice will, of course, to a greater or lesser degree, be based on financial, economic and social criteria and conciliation or compromise between the two approaches.

The two methods represent complementary approaches to the problem:

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[4] cf. Annex 2

- as regards objectives, they raise the question of compatibility between financial stabilization and the minimal satisfaction of social needs (the notion of the 'core elements' of social expenditure);

- respecting the phasing of implementation, the time scale implied by the ex post method is not compatible with the urgent need for action; conversely, the long-term effects of social investment have immediate costs which are incompatible with financial constraints;

- at institutional level, the problem arises of compatibility between the institutions responsible for the SDA and those responsible for social policy.

PART II

Proposals for Community action

In view of its history and its specific relations with the ACP countries, the Europe of Twelve should feel itself obliged to define a specific policy regarding adjustment. The logic underlying the ACP/EEC agreements, the Community's expertise in the field of regional integration and economic policy coordination, the emphasis based on the social dimension and on long-term developments are all factors implying a different perspective from that of the Bretton Wood Institutions. Europe has an essential role to play in supporting ACP exports and guaranteeing export markets.

The present situation is one of coordination among the aid donors and acceptance of the leading role of the World Bank and the IMF. It is incumbent on the EEC and the European Parliament, given their specific concerns, to defend the original nature of their proposals, thus enabling the ACPs to avoid being caught between the devil of protectionism and the deep blue sea of ultra-liberalism.

One may define four priority areas, as follows:

- the social dimension of adjustment;
- regional integration;
- institutional coordination;
- support for a new development strategy.

The first three aspects are compatible with the standard adjustment model, while the fourth implies an alternative model.

2.1. The social dimension of adjustment

In view of the risks of non-coverage of social costs in the ACP countries, it is vital that the Community should propose an original model of intervention which will meet with the acceptance of the other donors. The implementation of an action plan presupposes:

- an appropriate accounting framework;
- intervention indicators;
- methods for assessing the effects of policies.

A new accounting framework

The extent of the public financial imbalances has, since the mid-1980s, led to the incorporation of the reform of public finances within the framework of structural adjustment. The measures taken have been aimed at the lasting re-establishment of budgetary equilibrium, while simultaneously affecting revenue and spending. In practice, the fiscal revenues of the African countries have tended to fall, due to the shrinkage of the basis for recovery (thanks to the fall in total revenue), as well as the voluntary reduction in average pressure levels. In view of the increased rate of servicing of the national debt - whose share of total expenditure more than tripled over the 1980s - it has only been possible to achieve overall budgetary stabilization at the price of a significant reduction in ordinary civil expenditure.

Budget cuts have been directed primarily at public investment which is not externally financed, at financial transfers to public enterprises and at subsidies previously introduced in the context of prices policy, especially in the agricultural sector. However, the squeezing of financial commitments has also affected the operating budget: drastic cuts have been made in recurrent expenditure, especially in the case of maintenance. At the same time, most of the African countries have embarked on programmes (not always successful) of a highly voluntarist nature aimed at controlling wage costs, on the basis of staff cuts and the freezing of salaries.

These deflationary measures concerning total expenditure have also affected internal budgetary structures: the reductions have not been uniform, and the austerity drive has necessitated compromises between ministries.

It is difficult to assess the success of these compromises. The World Bank (1989, 4), approaching the question from a macro-economic and relativist view point, takes the view that, in general, the main social budgets, i.e. education and health, have been protected from the deflationary measures: education continues to account for an average of 15% of the national budget in SSA while the figure for health is approximately 5%[5]. If relative levels have been partially kept up, this barely conceals a decline in absolute terms: according to other World Bank statistics (1989, 3), total public expenditure appears to have fallen at the rate of 0.7% per annum between 1980 and 1987, which implies that the health and education budgets have, in absolute terms, been reduced by some 5% over the period[6].

Public accounts can certainly provide an initial element for the evaluation of the social consequences of adjustment, but they cannot constitute, on their own, an adequate framework for analysis: this approach only takes account of the macroeconomic level, and thus occludes more fundamental aspects, such as the nature of services rendered, the type of expenditure, the nature of the beneficiaries and the short-, mid-, and long-term social needs[7]. It is thus essential that the Community should have at its disposal a coherent accounting framework enabling it to evaluate, if possible on an exhaustive basis, the overall picture concerning expenditure in a specific field.

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[5] These estimates should not be taken at face value. They are based on non-exhaustive assessments (covering 25 countries of sub-Saharan Africa) dating from the mid-1980s. The World Bank does not specify its statistical sources.

[6] This estimate falls well short of that of the ECA, according to which the social budgets in the education and health sectors fell by some 27% between 1980 and 1990.

[7] The evaluation of the SAD on the basis of public accounting sources implies another, substantial bias: the budgets of the African countries are presented on the basis of initial financial legislation (rather than implementation), and in terms of individual ministries, rather than the actual distribution of functions. Thus, the national education budget may have to support expenditure pertaining to general administration (e.g. the operation and maintenance of the vehicle stock and administrative buildings), while certain areas of educational expenditure are entered in the budgets of other ministries (as in the case of vocational training).

Such a framework could be based on the methodological work of the Statistical Office of the European Communities (for the publication of social accounts), or on that of the French INSEE (Institut Nationale de la Statistique et des Etudes Economiques) (for satellite accounts).

The main objective of this accounting operation is to evaluate the services provided, distinguishing the nature of the operators financing the expenditure (national ministries, bilateral and multilateral aid bodies, consumers), to identify the target groups (and the sectors of the population forming them) and, finally, to specify the nature of the various services provided[8].

Accounts of this nature serve a strategic purpose: they represent a valuable instrument for the evaluation of the actual measures undertaken in the social field concerned, and for the quantitative determination of the irreducible 'core elements' of social expenditure[9].

Evaluation of the core elements:

A core element may be defined as the minimum level of social expenditure below which there is a greatly increased possibility of materialization of risks. The risks concerned are diverse in nature. They may be primarily economic: an excessively low social budget may hinder the resumption of growth and development. They may also be social, entailing explosions of mass violence, particularly in cities, or individual flight strategies taking the form, most frequently, of emigration.

The satellite accounts could provide the statistical basis required for determination of the core elements. Their assessment also necessitates the definition of the relative priorities of social need, as well as the translation of such needs into social expenditure.

The social needs requiring satisfaction are, in principle, limitless, especially given the high level of population growth and the low existing levels of provision and coverage. The limited funding capacities, both at national and international level, represent a significant constraint, obliging the countries undergoing adjustment to classify their priorities in the social field and to make the necessary compromises. The definition of the core elements must therefore be based initially on an economic cost-benefit analysis undertaken from a global social viewpoint.

In macroeconomic terms, the advantages to be expected from social investment in education or health should be located primarily in the resultant improvement of the marginal productivity of labour; this, in its turn, is a favourable condition for growth and development in the long term[10]. Social investment also has favourable external effects on all the demographic and

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8 A more detailed consideration of the satellite accounts may be found in Annex 4.

9 A command of statistical method is, obviously, an asset for those seeking leadership in bilateral and multilateral negotiations.

10 Theoretically, increased labour productivity should be accompanied by higher real wages. Increased wage levels lead to higher demand, thus absorbing the increase in supply initially created by the increase in labour productivity.

economic variables: there are close links between educational levels, birth control and health and nutritional standards.

Evaluation of costs should include both direct and indirect expenditure. Thus, the unit costs of education at a particular level should take account of operational expenditure (teachers' salaries, general administration costs), and also of recurrent charges (maintenance) and the depreciation or replacement of teaching materials. Account should also be taken of possible reductions in expenditure (e.g. cuts in the staff-student ratio, rigorous controls on current expenditure, etc.). At present, public expenditure per student in African universities stands at approximately US$ 3000 per annum, a figure eight times higher than that for Asia, although the quality of the teaching in no sense justifies such a difference.

A simple economic calculation comparing costs and benefits in relation to proposed investment facilitates evaluation of the 'economic profitability rates' of investments in the various social sectors. Calculations of this type are widely utilized in the US, in the context of the Planning Programming Budgeting System (PPBS), and in France, within the framework of the Rationalisation des Choix Budgétaires (RCB). For the developing countries, a study by Psacharopoulos (1981, 11) has made it possible to assess the social profitability rates for the various educational cycles. His figures reveal a high degree of profitability in the case of primary education, but a lower social utility in the case of both secondary and higher education. Similarly, in the area of health, investment in primary health care centres and training programmes for nursing personnel proves to be more profitable than investment in city hospitals.

Economic calculations of this nature make it possible to undertake an initial ordering of priorities; they should, however, be supplemented with a view to the integration of other variables of a more sociological, microeconomic and qualitative nature:

- the economic cost of a social programme should take account of opportunity costs: it is important not to determine the priority of investments solely on the basis of their immediate profitability. Thus, educational establishments and health centres exercise favourable external effects which, however, are not easy to measure in the context of population distribution: in the Congo, migration to the cities tends to correspond very closely to the location of educational establishments. Similarly, the availability of health care may make it possible to move people to areas provided with the minimum of infrastructures. In such cases, social programmes have a role to play in regional planning and population distribution.

- the profitability of a social investment should be calculated in such a way as to include the time dimension: it may appear more profitable at present to direct educational investment to the primary sector, but this profitability is to a large extent conditioned by existing labour requirements. As technology evolves, there may be alterations in the long term in patterns of labour demand, leading to an increased need for more skilled labour with better qualifications involving at least a secondary education. Equally, in the field of health, curative medicine appears to be of high social benefit, since its results are immediate; however, in the long term, preventive medicine is probably of greater social efficiency. If the time dimension is not integrated, myopic short-term attitudes may lead to the premature obsolescence of investment.

- Collective action should also take account of the individual strategies of the agents. From a microeconomic perspective in terms of human capital, if the agents do not expect sufficient benefits from participation in an educational programme, or consider access to certain social services (especially health or welfare) to be too expensive, they will seek such services from alternative providers: e.g. self-administered medication, traditional medicine, Koranic schools, etc[11].

- the implementation of a social programme entails the participation of the agents (users, NGOs, the private sector, the public authorities, representatives of the social services, financial backers, etc). It implies the need to supplement the accounting approach by the determination, on a more qualitative basis, of the social redistribution processes and the specific groups to which the agents belong. The socially marginal and the very poor who constitute the really vulnerable groups would seem to be those who are excluded from the market (by failing to reach viable demand levels), from the supply of goods and services of a public nature (following deregulation and privatization), and, above all, from the networks of risk socialization.

All in all, the definition of priority objectives and the quantitative determination of the core elements should arise out of a careful balance between economic evaluation and more qualitative considerations. Should the Community take on responsibility, as implied by the Lomé IV agreements, for the funding of social expenditure, it is essential that the final determination of the core element should be subject to negotiation with the beneficiary countries.

Definition of the intervention indicators:

Various models of Community intervention may be envisaged with a view to pre-empting the social risks which might arise from structural adjustment. Two models may be considered here: conjunctural corrective intervention, and multiannual participatory commitments.

Under the first model, the Community's intervention would be essentially corrective: the Community authorities would intervene where national governments were unable to cover the funding of the core elements of social expenditure on the basis of tax revenue or aid. In this case, the Community's commitment would be conjunctural and limited to a fixed period[12].

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[11] In Somalia, Togo and Mozambique, schooling rates have fallen by some 10 percentage points since the early 1980s. This retrocession may be explained by political factors (in the case of Mozambique) or economic pressures, but it may also be caused by the decline in the quality of teaching, which discourages families from educating their children at a time when education costs are tending to rise.

[12] It is imaginable that, should the imbalance persist, the Community might renegotiate with the beneficiary countries the specific content of the core elements, from a less voluntaristic perspective taking greater account of internal financing.

As with other stabilizing mechanisms proposed by the EEC to the ACP countries, this type of commitment presupposes intervention indicators operating as 'warning thresholds'. Several categories may be defined:

- budgetary commitment indicators measuring the gap between earmarked levels of social expenditure and actual funding levels: the gap, thus determined, could be evaluated on an annual basis, and the threshold for intervention could be calculated on the basis of, for instance, a mobile three-year average. This type of gap indicator is easily quantifiable, but nonetheless contains a significant bias, since the gap to be financed may be unrelated to the quality of services provided.

- performance indicators measuring the gap between actual achievements and theoretical needs. Unlike the first-mentioned indicator, this is not necessarily monetary in character. Indicators of this type may also express gaps in respect of schooling rates, maternal and infant protection rates, vaccination rates, etc. While more useful than the first type, they are, however, more difficult to quantify. They imply a certain level of expertise and the mobilization of other international organizations (e.g. UNICEF, the WHO, UNESCO, etc). The follow-up, which is necessary if they are to be used as warning indicators, requires surveys at regular intervals or the taking of statistically significant samples. These indicators are also more difficult to interpret than the first-mentioned: the gap may be imputed either to insufficient social expenditure (in which case it would point to a real financial constraint), or to an error in the cost evaluation of the core element.

A further form of intervention would be the following: the Community would take responsibility for a portion of social expenditure, which would then be debudgetized as far as the beneficiary country was concerned. This would mean a reduction in the amount corresponding to irreducible social expenditure to be borne by the national budget. The correct working of this arrangement would require the capacity for negotiation with the institutions responsible for adjustment, with a view to ensuring that the portion of the core element for which the national government was still responsible would be financed in full (thus being protected from any budgetary economy measures).[13] The portion of expenditure to be debudgetized and guaranteed by the Community should be determined via a specific evaluation method. This would involve determining the nature of the expenditure (whether of an operational or an investment nature), measuring its internal effects on employment and value added and assessing its consequences for the Community (e.g. recurrent expenditure, multiannual commitments etc.).[14]

Whatever the form taken by intervention, it is essential that the Community authorities should take the main responsibility for coordinating the aid

[13] It is essential that the Community should monitor budgetary commitments in the beneficiary states. The resources allocated by the Community institutions must be utilized in accordance with the wishes of the donor countries. Experience has shown that certain counterpart funds have been diverted, by substitution effects, to military expenditure or prestige projects (ESC(EEC), 1991, 6).

[14] Some elements of this evaluation method are outlined in Annex 4.

donors with regard to the funding of irreducible social expenditure.[15] There will be more justification for such a leading role if the Community is able to draw up a coherent statistical framework, if it participates together with the beneficiary countries in the negotiation and quantitative assessment of the core elements, and if it manages to convince the bilateral donors to take part in its intervention projects.

2.2 The regional dimension

Regional cooperation and integration are essential for the ACP countries. In the words of Edgar Pisani, as quoted by President Diouf, 'either Africa will be regionally based or it will not function at all'. Sub-Saharan Africa is made up essentially of small countries, 14 of which have no coastline, while its total GDP is approximately equal to that of the Netherlands or Mexico (US$ 160 bn). The present climate of crisis and adjustment is being accompanied by a relative 'regional disintegration'. The Community is in a position to play a strategic role by creating the conditions for adjustment to go hand in hand with regional integration.

Since the first Lomé Convention, the EEC has encouraged the various forms of integration: operational cooperation and joint projects, programmed interdependence between economies, coordination of sectoral policies, etc. The implementation of the stabilization measures requires coordination between two factors essential to development: adjustment and integration.

As is recognized, regional integration can constitute a second-rank optimum of higher viability than the hypothetical optimum of free trade, provided there is free competition, accompanied by trade creation and economies of scale. Given the relative failure of the recent voluntarist attempts at African integration, and the extent of the current imbalances, it appears preferable to encourage a more flexible and pragmatic process based on the existing dynamic of the agents and using diverse instruments. However, a minimum of institutionalization seems necessary so as to avoid the perverse effects of contraband, to establish the ground rules and to create a framework for the harmonization of national policy. The Community may provide strategic support in this connection.

There are several possibilities here. The minimum approach would be to integrate the regional dimension into the national SAPs from the conception stage onwards, and to encourage harmonization of national economic policies via removal of the distortions arising from economic controls. A more ambitious model would involve implementing SAPs conceived in a regional context, in liaison with the existing regional organizations. This approach is, to some extent, implicit in the RAP for the CACEU instituted by the World Bank. Other possible modes of supporting adjustment loans would include the permanent coordination and concertation of national policies, the introduction of regional preferences on an evolutionary basis, regional compensation mechanisms backed up by external aid, the introduction of flexible rules enabling organized regional markets to be created, or coordination of sectoral policies (cf. Hugon and Robson (1991, 10) and Coussy and Hugon (1991, 9)).

[15] Coordination is vital here. In the case of education, for instance, assessment based on economic profitability points to a high degree of social utility for the primary sector. However, most of the aid donors at present concentrate funding on the secondary and higher education sectors.

In addition to the institution of regional SAPs, several other forms of support would be desirable: coordination of national economic policies (e.g. in agriculture), support for functional or specific forms of cooperation, the introduction of regional convertibility systems (especially through the compensation boards), the progressive conversion of the franc zone into an ECU zone, guaranteed external convertibility of currencies, etc.

A useful precedent is provided by the role of the Marshall plan, the European Payments Union and the processes of European integration, although, obviously, history never repeats itself exactly. The creation of regional structures for stabilization, concertation and coordination has three aspects: liberalization mechanisms, cooperation mechanisms and regional regulations. One may propose three principal measures: enhancement of interdependence between economies via liberalization of the markets in goods and factors in the context of regional structures, while allowing for phased programmes of transition towards greater openness to the outside world; encouragement of global and national sectoral policies; and the institution of cooperative stabilization and concertation mechanisms in the context of joint sectoral projects (e.g. management of regional regulatory stocks or regional convertibility through the compensation boards).

The self-regulating market implied by the pure adjustment model may be considered utopian; the same applies to the notion of regional rules operating independently of the world market. Alternatively, the Community is in a position to play a significant role in the gradual transition of the ACP countries and in the creation of regional structures conceived as a first stage towards internationalization (see Annex 3).

2.3 The institutional dimension

It is essential to integrate the public and institutional aspects of adjustment: i.e. such considerations as efficiency of the administrative apparatus, the constitutional state, public participation, etc.

The question arises as to whether the Community's interventions should be made conditional on political factors.

The SAPs indirectly imply certain conditions which affect decisions regarding economic policy. Insofar as it affects incentive arrangements, adjustment entails institutional reforms and legislative changes. The question must be asked whether, beyond this degree of conditionality, directly political criteria should be introduced, such as respect for human rights or multi-party democracy.

Is pluralist democracy a condition for economic development in the ACPs? This basic question remains highly controversial. The economic failure of totalitarian regimes is clear. It is only possible to administer complex systems on the basis of transparency of information, the free interplay of government and opposition and rapid adaptation to changing situations. The recovery of investment and productivity calls for consensus and the legitimation of power. However, both development and democracy can only be created by those directly involved, and neither can be imposed from outside on any lasting basis. Both require rules, practices and a social dynamic rooted in the histories of the countries concerned. It is obviously essential to create the international conditions and the North-South cooperation relations which will make it possible for the forces of pluralist democracy to flourish.

2.4 Beyond adjustment: support for a new development strategy

Over the 1980s, the question of adjustment tended to obscure the fundamental problems of development. The unsatisfactory results obtained by the SAPs have given rise to doubts concerning their effectiveness, especially in the least-developed countries.

The correct approach is not so much to propose an alternative model to stabilization, based on an abstraction of the financial constraints and the necessary reforms - which would, in practice, amount to lapsing into naive voluntarism - as to study the feasibility of reversing the sequences implicit in the existing programmes.

The standard model underlying structural adjustment is based on the notion of a 'virtuous circle': the mobilization of international funding should be carried out in such a way as to benefit physical and human capital investment with a view to increasing the productivity of the various factors. Increased productivity, accompanied by other reforms (e.g. in the monetary, exchange rate and institutional areas), should enhance the competitiveness of national production. The growth of exports, on the basis of respect for the theory of comparative advantage, and import substitution linked to increased competitiveness, should lead to lasting growth producing an increase in revenue, part of which should be utilized for repayment of the external debt.

For the donors, especially the EEC Member States, the costs associated with this scheme are financial, economic, social and political:

- The financial cost of adjustment is considerable: according to the World Bank (1986, 2), the annual hard currency requirements of the African countries belonging to the IDA were approximately US$27 bn at the beginning of the 1980s. They now stand at US$36 bn, including 9 bn under the heading of concessional flows. In 1989, ODA (Official Development Assistance) provided by the EEC Member States amounted to slightly more than US$22 bn. At multilateral level, the Fourth Lomé Convention provides for the allocation of ECU 1.15 bn (i.e. US$1.3 bn) for structural adjustment. Given the inability of the LDCs to guarantee debt servicing, most bilateral loans are now classified as non-repayable (i.e., in practice, they amount to grants).

- To this financial burden should be added other economic costs which are less easy to quantify: adjustment will render obsolete a substantial part of the industrial apparatus of the ACP countries. The closure of production units arises from at least two causes: uncompetitiveness on the world market and lack of sufficient internal demand.[16] A considerable portion of this capital has been financed by transfers, especially from the

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[16] An analysis conducted by the UNIDO in Zaire in 1989-1991 provides a basis for classifying the various difficulties encountered by industry: the problems of the metallo-mechanic sector or the cement industry derive from lack of competitiveness, whereas the difficulties of the textile sector are more related to the fall in purchasing power, especially in urban areas, arising from adjustment.

Community. These obsolete investments represent a handicap which the countries undergoing adjustment will have to overcome, and constitute an opportunity cost for financial backers who could have channelled their aid more effectively.

- Despite the SDA, adjustment tends to entail marginalization and increasing exclusion of the groups affected. As has been pointed out by various African leaders, especially President Diouf, there is a great risk of emigration. At a time when a single European area is being constructed, the social cost of any such migration could be considerable.

- Finally, adjustment has its political costs. By participating alongside the Bretton Woods institutions in the management of structural adjustment, the Community is, if not taking full responsibility, at all events committing the 'capital of trust' which it has gradually built up through the history of its relations with the ACP countries.

These costs must be borne in mind when considering the probability of success of adjustment in the least-developed countries. As shown above, there is a considerable risk that, in the countries in question, the process will trigger off deflationary spirals producing 'vicious circles'. By contrast with the liberalism of the Bretton Woods agencies, the Community institutions, given their tradition, should remind observers that the asymmetrical liberalism proposed for the South is not applied in the North, that farmers in the OECD countries are protected, that the market has to be constructed, and that vulnerable economies require stabilizing institutions and organizations. Traditionally, ACP-EEC agreements have been based on principles giving priority to stabilizing and cooperative mechanisms.

Without wishing to contest the validity - at least in theoretical terms - of the standard model outlined above, it is desirable to evaluate, at least briefly, the costs associated with an adjustment based on a Keynesian, rather than liberal, perspective.

The Keynesian-inspired model would propose 'upward adjustment', to be organized at international level, leading to increased revenue, savings and investment.

At present, internal financial imbalances prevent the ACP countries from entrusting the 'starter' role in such a revival to the public sector. The resumption of growth could be led by external demand. However, given the initial low competitiveness of the productive systems, any such export promotion policy would have to be organized on a concerted basis: thus, the Community would guarantee markets (in respect of quantity and, above all, prices) for ACP exports. To ensure that such a policy for short-term recovery did not encourage the beneficiary countries to relax their long-term commitment to adjustment, such a departure from the strict logic of comparative advantage would have to be on a transitional basis and co-administered by both sides (donors and beneficiaries).

This model would imply a 'virtuous circle', based on the following sequence: guaranteed external markets would lead to an increase in the value of exports. Growth would generate increased domestic savings, which would fund productive investment, especially in new export sectors, which would, in turn, generate further growth, etc.

While firmly distancing itself from the liberal model as regards the initial conditions for recovery and the means of implementation, this scheme tends nonetheless towards the same objectives. It differs from the first scheme in supposing that resumed growth is one of the conditions for the success of adjustment.

There are a number of theoretical and practical arguments in favour or protecting and guaranteeing markets:[17]

- The African countries are small states based on regressive specialization in primary products, and thus liable to overproduction. They do not possess resources which can be rapidly mobilized by quasi-market mechanisms. They also suffer from wastage and underemployment.

- The conditions required by the theory of comparative advantage do not exist: the markets are not fully competitive, world prices do not facilitate equilibrium, there is insufficient information concerning prices, the factors of production are not fully employed, reallocation of the factors would necessitate delays and involve conversion costs, etc.

A concerted increase in export revenue would require combined and structured measures, some of them fully compatible with the long-term adjustment process proposed by the Bretton Woods Institutions. The recovery of the export sectors requires higher levels of flexibility and professionalization, but also improves internal organization (one may point here to the success of the cotton sector). Guaranteed markets should favour diversification and conversion, thus making it possible, via the integration of time-scales and costs of factor mobility, to find new market niches for national exports on the basis of progressive specialization (thus, the provision of food aid to Eastern Europe could stimulate ACP exports of such products as cocoa or coffee). The success of such a policy would also require the continuation of efforts in the areas of financial reform, liberalization of internal distribution networks and the constitution of markets in both products and factors.

In practice, given the lapsing of the product agreements and the attitudes of operators on the long-term commodity markets, it appears unlikely that a return to the overpricing of the colonial period could be implemented or administered. Markets may be guaranteed by aid (as in the case of the sugar protocol); aid could also have the role of subsidizing the various sectors to ensure their competitiveness. Its functions could also include supporting operators in their efforts at achieving diversification and establishment of new export sectors, especially in the cases of quality agricultural products, services and manufactured products, and in their international marketing operations.

Such an export promotion policy would obviously imply a certain cost for the Community: to guarantee the low-income ACP countries 5% export growth per annum over a five-year period would entail a total cost of approximately

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17 Thus, the Asian 'model' is, or has been, largely based on a subsidized export sector, orientation of industry towards a protected internal market, a highly flexible productive system and an internal liberalization enabling a genuine market to be created under the auspices of a dynamically-oriented state.

US$7 bn. It may be noted for comparative purposes that this sum would represent less than one-fifth of the official development aid which the countries concerned would receive over the same period.[18] A more voluntarist policy, which would guarantee 10% export growth per annum over the same five-year period, would cost approximately US$17 bn (i.e. 41% of the potential total ODA for those countries.[19]

Should export revenues be guaranteed, this would have positive induction effects on the growth of the ACP countries. If account is taken of the multiplier effect, the increase in GDP may be estimated to be approximately 4.7% on average per annum (as opposed to 2.1% for the period 1980-1989).

Resumed growth should be accompanied by increased imports. Given the high degree of openness of these economies (the average propensity to import is approximately 32%), the additional imports would amount to approximately US$5 bn. In total, the net transfer of resources to the beneficiary LDCs (on the basis of guaranteed exports minus induced imports) would, nonetheless, amount to approximately US$2-5 bn over a five-year period. The hard currency thus obtained could be used to finance productive investment, both material and humane and institutional reforms, to be implemented in the context of long-term adjustment.

In addition to external guarantees in respect of prices and markets and the financing of a diversification fund, two other measures for recovery may be proposed:

- support for regional payment systems. Stabilization of trade, in the case of countries with convertible currencies (such as the franc zone countries), arguably implies the development of trade relations with countries with non-convertible currencies. World Bank studies have shown that the level of inter-African trade could be doubled or trebled, while still respecting comparative advantages, if the obstacles arising from non-convertibility of currencies were removed. The introduction of limited transferability of the non-convertible currencies would require regional payment agreements. On the model of the post-war European Payments Union, such agreements could be financed by the Community. The multiplier effects of aid would be greater on the basis of support for regional monetary structures involving market expansion (cf. Annex 3, p. 20).

- the institution of trade agreements involving the countries of Western and Eastern Europe and the ACP countries (cf. Annex 5, pp. 21-23).

The implementation of a policy for recovery based on exports and domestic demand implies, obviously, an alteration in the international climate within which the ACP countries have to operate. The EEC is in a position to use its institutional weight to ensure implementation of the reforms required, with a view to reducing asymmetrical adjustment as well as cutting the US deficit. The Community could encourage reduction of protection levels <u>vis-à-vis</u> Southern manufactures, propose changes in the structure of decision-making on

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[18] The methodology employed for these calculations and the underlying model are outlined in Annex 5.

[19] The total amount granted in official development aid by the OECD countries in 1989 corresponded, on average, to 0.08% of the total GDP of the OECD countries.

international bodies, and initiate fresh negotiations in UNCTAD and GATT with a view to the reclassification of basic products. Such reforms, while not directly affecting the adjustment process, are necessary conditions for the resumption of growth in the ACP countries.

The success of expansion-based adjustment also requires the resolution of the debt problem: additional export revenue should, as a matter of priority, be devoted to the financing of diversification, rather than to the settlement of existing obligations. Those obligations should be renegotiated in the context of the specialized bodies (the Club of Paris and Club of London), and debt servicing should be calculated in accordance with the real performance of the countries undergoing adjustment.

The choice of policy must not be determined solely on the basis of analysis of the comparative costs of adjustment under the different models. The feasibility of an alternative policy will also be dependent on:

- a certain degree of willingness on the part of the Community to guarantee, albeit only temporarily, export markets for the ACP countries;

- the capacity to mobilize bilateral aid with a view to co-financing measures to guarantee exports, linked to an export diversification fund;

- powers of management and surveillance, possibly accompanied by certain conditions, with a view to ensuring that net transfers of resources to the ACP countries will, in fact, be utilized to finance the investments required for long-term adjustment.

- a certain political capacity. The success of adjustment is not solely dependent on external transfers. The resumption of growth in the LDCs requires not only the reform of economic structures, but also, and above all, political reforms in the direction of the creation of a constitutional state and a progressive civil society.

From the viewpoint of development policy, the main priority should be not so much to add a social dimension to adjustment policies (giving them a 'human face'), or to offset the costs of adjustment via social measures, as to reverse the present sequence of political/social/economic/financial action. There is an urgent need to initiate progressive processes which will make it possible to devise a global plan for the future.

Provided the Community speaks with a united voice, it should be in a position to promote such reforms in international negotiations.

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