Africa's Debt Crisis: Are Structural Adjustment Programs Relevant?

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Résumé: *Cette étude cherche à répondre à deux questions. La première est de savoir pourquoi la crise de la dette a été plus sévère en Afrique même si les chocs auxquels elle a eu à faire face sont les mêmes que ceux auxquels les autres régions en développement ont été confrontées. La deuxième question est de savoir dans quelle mesure les programmes d'ajustement structurel ont été appropriés pour résoudre la crise africaine. Dans la première partie l'auteur essaie de répondre à la première question en indiquant quelques contraintes structurelles fondamentales qui sont plus prononcées en Afrique que dans les autres régions en développement et qui ont rendu les économies africaines plus vulnérable au déséquilibre extérieur. Dans la deuxième partie, l'auteur se livre à une analyse de la capacité des programmes d'ajustement structurel à résoudre les problèmes structurels soulevés dans la première partie.*

The Gravity of Africa's Debt Crisis

Although the debt figures of Sub-Saharan Africa (hereafter referred to as Africa) are not very reliable, the total stock is estimated to be smaller than those of other regions of the Third World. However, Africa's debt crisis is graver than those of other regions in three respects. First, the ratio of Africa's total debt to total export earnings has been rising more rapidly than those of other regions and it had become the highest by 1987 (World Bank, 1988). Secondly, the ratio of Africa's total debt to GNP has grown rapidly to become the highest since 1986 (See Table 1). Thirdly, despite incurring the highest growth rates of borrowing, African economies have grown slower than those in other developing countries.

The gravity of Africa's debt crisis has been somewhat modified by relatively softer terms of debt made possible by the official creditors of Africa. Yet, compared to other developing regions, the debt crisis in Africa is more fundamental and of a more long-run nature, since African economies have grown too slowly to carry the rising level of debt service over time (See Table 2).

Since the early 1980s, the IMF, the World Bank and other aid donors have actively promoted structural adjustment programs, a package of economic reforms that are expected to realign and invigorate debt-ridden

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and slow-growing economies, thereby enabling them to overcome their internal and external disequilibria.

This study has a dual purpose. The first objective, which is discussed in section 2 of the paper, is to identify the structural problems that have made Africa's debt crisis more serious than that of other Third World regions. The second objective, covered in section 3, is to examine the relevance of SAPs in overcoming Africa's structural problems, by analyzing the implications of some of their critical components for the structural constraints that characterize African economies.

Table 1: Average Growth Rates of the Ratios of Total Debt to Export Earnings and Total Debt to GNP (1980-87)

Region	Ratio of Total Debt to Export Earnings	Ratio of Total Debt to GNP
Sub Saharan Africa	21.7	20.4
E. Asia & the Pacific	5.6	10.4
Lat. Am. & Caribbean	10.3	8.4
No. Af. & the Middle East	10.9	3.7

Source: Computed from World Bank, *World Debt Tables 1988-89 Edition*, vol. 1, Washington, D.C., 1988.

Table 2: Average Growth Rates of Total Debt Stock and GNP of Developing Countries by Region

Region	Total Debt Stock 1980-87	GDP 1980-88
Sub-Saharan Africa	12.8	0.4
Asia	12.5	7.6
Latin America & Caribbean	9.1	1.2

Source: World Bank, *World Debt Tables 1988-89 Edition*, Vol. 1, Washington D.C.: World Bank, 1988.

Africa's Structural Problems

A number of international shocks contributed to making Africa's balance of payment and debt problems reach crisis proportions. During the 1973-79 period, oil price hikes and low interest rates prompted a rapid accumulation of large debt. In the early 1980s declining commodity prices and deteriorating terms of trade (World Bank, 1986), rising interest rates (Krum, 1985), and a decline in the net inflows of capital and other resources

intensified the crisis. These international shocks do not explain Africa's total debt stock and their impacts are not limited to that continent. However, their repercussions have been generally more serious in Africa than elsewhere. A UN report estimates the impact of the worsening international conditions on African economies between 1979/81 and 1985/87 to be about $6.5 billion annually (see Table 3).

Table 3: Net Deterioration of Africa's* External Financial Position between 1979-81 and 1985-87
(billions of dollars per annum)

Terms of trade losses	2.9
Increased interest payments	2.1
Reduced net credit flow	2.4
Reduced direct investment	0.2
Total deterioration	7.6
Increased official grants	1.1
Net deterioration	6.5

Source: UN, *Financing Africa's Recovery*, New York: 1988, p. 14.
* Excluding Nigeria

Proponents of SAPs have essentially attributed the differential impacts of the international shocks, and the internal causes of disequilibrium of African economies to bad policies. In turn, these policies are attributed to the magnitude of state intervention both in terms of directly owning assets as well as in fixing prices and exchange rates by policy (World Bank, 1981). The relatively large size of the public sector is associated with inefficiency in allocation of resources (Barlett, 1989; Berg, 1987; Nellis, 1986; Vengroff and Farah, 1985; Landau, 1984). The state's intervention in economic policy such as controlling prices, imports, rationing foreign exchange and maintaining overvalued currencies is also viewed as being detrimental to the ability of African economies to grow and to adopt to changing international conditions in general and to agricultural producers and exporters in particular (Balassa, 1984; Marseden and Belot, 1987. The continued intervention by the state, despite the failures of its policies is attributed to either its self-serving nature or to its commitment to socialist ideology (Bartlett, 1989: 304).

It is likely that African economies are generally more interventionist than other (non-socialist) developing countries (World Bank, 1989a:25; Bartlett, 1989; Diamond, 1987:573). Much of the intervention also promotes the interests of state functionaries while impairing the growth of the economy.

Producer price controls, for instance, generally benefit the state itself, the bureaucracy and the industrial sector which, with low food prices, can keep wages low. Urban consumers, who have a stronger political influence than peasant producers also benefit from the price policies of governments (Bates, 1981:11-44). However, the explanation that state intervention is responsible for the African crisis is rather reductionist. African countries differ from other LDCs not only in terms of the magnitude of state intervention but also in a number of other factors, including their modes of production and consequently, their position in the global division of labor. The interventionist state explanation also fails to clarify why African states are more interventionist than other states. Furthermore, as Hamilton points out, intervention in the Third World is not always a hindrance to the development of the private sector as often claimed. SAPs, however, differentiate very little between different types of interventions. For instance, the same policies are recommended for states as different as those of Zaire and Zimbabwe. On the implementation side also, it is not clear why the self-serving state can be expected to implement SAPs although it may implement some cosmetic changes in order to receive the rewards from the sponsors of SAPs.

The Mode of Production Problem

As Hyden (1980) points out, Africa more than any other region of the developing world is dominated by the peasant mode of production which has very weak links with the modern sector[1]. This has very important implications for its economic performance, as well as for its ability to absorb international shocks. The peasantry is a heterogeneous group ranging from the market-oriented middle income segment to the much larger low-income subsistent sector. The first segment is largely integrated into the market system[2]. The second segment, however, while by no means self-sufficient or totally insulated from the exchange (modern) sector is still largely marginalized from the market system.

The subsistent peasantry is a source of cheap labor and sells limited quantities of food and livestock products and buys farm inputs and a small group of basic consumer goods such as clothing, oil and sugar. In such an exchange, the peasantry often faces unequal terms of trade especially when

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1 Whether the subsistence sector is simply a residual of the traditional society or a product of marginalization made possible by the capitalist system has generated widespread debates (for details see Schejtman 1988). Despite the disagreements on its causes, the weak links between the subsistence sector and the modern market system is not seriously disputed.

2 Even this segment of the peasantry can be classified into the group that is tied to the international market by producing export oriented cash crops and the group that is only linked with the domestic market.

the state controls agricultural producer prices. Yet, the production of this overwhelming majority of the peasantry is essentially use-value oriented. One indirect indicator of this is the small proportion of the marketed portion of agricultural output which is estimated to be about 12% of total output (Ghai and Smith, 1987:60-67). The exchange the subsistent peasantry engages in also has a limited role in the allocation of resources. In other words, the nature of the subsistent peasantry's exchange is different from the exchange in a capitalist system. For the subsistent peasant, providing the food needs of the family and not exchange value is the predominant determinant of allocative decisions (Ellis, 1989; Wolf, 1966). It is also outside of the public sector where resources are largely allocated via policy. The paradox of the situation is that the subsistence segment of the peasantry is to a large extent, outside the domains of both the market and the state while, at the same time, operating within the socio-economic structures established by the market and the state.

Despite notable differences among individual countries, the size of the subsistent sector is considerable in Africa. As a result, its weak links with the modern exchange sector leads to two types of disarticulation of African economies. One type is that the modern sector is deprived of domestic markets and other linkages with the rest of the economy and operates essentially as an enclave relying heavily on the international market for its growth. Its dependency, in turn, renders the modern sector highly vulnerable to international shocks.

Another aspect of the disarticulation of African economies is the dissociation of the use of available resources from social needs. Political power and economic resources are highly concentrated in the small modern sector. The peasantry is largely deprived of resources. Consequently, it remains relegated to a subsistence level of production, unable to raise its productivity and to participate effectively in the market by translating its needs into demand[3]. African private enterprises, especially the bigger and more modern ones, thus, largely by-pass domestic social needs (the needs of the peasantry) and rely on the international market for their process of capital accumulation. The neglect by many African countries of the non-export sector of their economies, especially the food sector is a clear reflection of this structural problem. Inputs such as fertilizers are concentrated in the export sector. The ratios of the average amount of fertilizers used (Kg/ha) in the cash crop sector to those used in the food sector in 1979/81 were, for instance, 313 to 1 in Mauritius, 63 to 1 in

3 This perpetuates the resilience of the peasant mode of production and consequently, the disarticulation of African economies (for details on the disarticulation of African economies see Samir Amin, 1974).

Mozambique, 56 to 1 in Mali, 53 to 1 in Senegal, 32 to 1 in the Sudan, 25 to 1 in Burkina Faso, 22 to 1 in Madagascar, 20 to 1 in Brundi, 18 to 1 in Liberia, 16 to 1 in Tanzania and 10 to 1 in Cameroon (FAO, 1986).

The neglect of the food sector has often been attributed to policy instruments like producer price controls which certainly contribute to discriminate against that sector. However, price controls do not adequately explain relative differences between the food sector and the cash crop sector since both are generally affected. Even without price controls, it is unlikely that the food sector can compete against the cash crop sector in terms of attracting investment resources. The subsistence sector needs productivity-raising extension services before it can benefit from price incentives and increase its investments. The market-oriented producers, especially the lager holders, also usually choose the production of cash crops over food crops because of their generally higher profitability. The shifting of production from food to cash crops by large numbers of the more successful producers in many developing countries not only leads to chronic food problems but also to the decline of commodity prices by oversupplying the international market.

Basing economic decisions on the international market may certainly represent efficient allocation of resources on the part of individual enterprises. However, in this case, it does not represent a creative organization of national economies that develop internal dynamism since it by-passes the needs of considerable portions of the population. Unlike in the more diversified economies, in Africa, social needs and market guided allocation of resources do not necessarily correspond with each other. The ability of the market to coordinate resource allocation with social needs improves with diversification of the economy. At this stage of their development, however, the failure of the market in Africa, not so much in terms of allocative efficiency but in terms of coordination of available resources with social needs, is evident.

As already noted, the state in Africa has also generally failed to correct the dissociation of resource use from social need. This has been due to lack of political will which results from the lack of representation of the general population in policy-making. State intervention in the allocation of resources has often advanced the interests of the elite and their political supporters, corrupt individuals, and state functionaries (Bates, 1981). Despite state control of the allocation of credits in most African states, for instance, no more than 5% of African farmers are said to have access to institutional credit (Gonzalez-Vega, 1984:120). The pressure to compete with other developing countries in supplying the international market with primary commodities in order to acquire foreign exchange also reduces the ability of the state to divert resources to meet social needs.

Dissociation of resource use from social needs has impeded the expansion of a self-sustaining production base and has aggravated the debt problems of African economies. Food imports have, for instance, become an important drain on foreign exchange earnings (see table 4). By neglecting the food sector, African countries have surrendered an economic activity in which they could participate effectively.

Lack of coordination of the use of available resources with social needs has also contributed to widespread internal conflicts which, in turn, exacerbate the misallocation of resources by making large military expenditures unavoidable. The total military expenditures of African countries and even the ratio of their military expenditures to their GDPs, are still among the lowest in the developing world. The ratios of Africa's arms imports to total imports and exports are, however, higher than those of other developing regions except the Middle East. Arms imports thus represent an important form of leakage of foreign exchange, especially in countries such as Ethiopia, Angola, Somalia and Mozambique (U.S. Arms Control and Disarmament Agency, 1987.

Table 4: Food Imports of Selected African States (Percentage of Export Earnings)

Country	1970	1980	1985
Ethiopia	13.8	25.0	47.6
Ghana	16.9	10.5	34.7
Kenya	16.3	15.4	15.6
Mozambique	-	40.6	-
Somalia	52.9	110.8	90.4
Sudan	21.9	71.8	27.3
Tanzania	12.9	32.3	39.5
Zaire	8.1	10.1	15.5
Angola	-	-	10.6
Cameroon	13.4	9.5	21.0
Ivory Coast	17.5	15.5	14.2
Nigeria	10.3	8.0	12.1
Senegal	46.8	53.4	25.1
Zambia	4.8	11.2	8.6

Source: Computed from World Bank and FAO figures.

Africa's Position in the International Division of Labor

A problem that is related to both the predominance of the peasant mode of production and the disarticulation of African economies is their weak

position in the international division of labor. African countries generally inherited the least diversified economies from the colonial era (Mkandawire, 1988:11-12) and they still rely, more than any other region, on non-oil primary commodities for their export earnings. In 1986, for instance, the percentage of exports of non-primary commodities to total exports for 27 Sub-Saharan African countries averaged only 13.8% compared to 43.3% for 13 Asian and Pacific countries (excluding Japan, Taiwan, Singapore, Hong Kong and the two Koreas) and 25.1% for 20 Latin American and Caribbean countries (World Bank, 1989b).

Due to their narrow technological, managerial and production base, African countries also rely more than other regions on foreign sources for technology, capital and a variety of services and consumer goods the imports of which are unlikely to be covered by the exports of a few primary commodities. Relative to other developing countries, African countries also receive less for their exports and pay more for many of their imports for a variety of reasons[4]. Among such factors are inter-firm ties that make it possible for subsidiaries to be overcharged by parent companies for their imports in order to transfer profits and capital out of Africa, relative small size of African markets which prevents economies of scale and limitations of liner routes. Moreover, some of Africa's traditional export commodities have lost their importance due to substitutes. For others, it has become increasingly difficult to maintain favorable prices since African states, together with a large number of other developing countries, often oversupply the international market with commodities that generally have low income and price elasticities.

The neglect of domestic social needs, the resultant excessive dependency on international markets and the reliance on a few primary exports for capital for accumulation have made African economies more vulnerable than other regions to adverse fluctuations in the global economic conditions. Africa's balance of payment problems are thus not simply due to temporary external shocks such as shortfalls in exports or increases in costs of imports. Rather, they result from deep-rooted economic and political structural problems and they are compounded by the frequent adverse international conditions that they face. Overcoming the debt and economic crisis of African countries, thus, requires modifying their position in the international division of labor by coordinating resource use with social needs to transform the subsistent sector and by diversifying their economies.

The diagnosis of the proponents of SAPs pays little attention to the constraints that Africa's structural problems place on the market system. The

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4 Yeats, Alexander J., "Do African Countries Pay More for Imports?" *Finance and Development* 27, 2, June 1990, pp. 38-40.

emphasis is largely on the magnitude and inappropriateness of state intervention[5]. Consequently, the prescriptions overestimate the power of the market system in overcoming Africa's economic problems. The inappropriateness of many of the policies that African states have pursued is undeniable, however, the suitability of the policies of SAPs to the transformation of the subsistence sector and to the diversification of African economies, without which a fundamental solution to the debt crisis is not likely, is far from been certain. We now briefly identify the essential characteristics of SAPs and examine the implications of some of their key components for the transformation of the peasantry and the diversification of African economies.

Essential Characteristics of Adjustment Programs

Structural Adjustment Programs (SAPs) are comprised of three different types of policies designed to meet a variety of objectives. One type is expenditure reducing deflationary policies primarily designed to correct budgetary imbalances. These set of policies, which are closely tied not the IMF, include, reduction of public expenditures, credit restraint, wage control and phasing out of subsidies. The second type is expenditure switching policies that are expected to promote export-led growth by diverting productive resources from non-tradeable to tradeable goods. Expenditure switching policies include devaluation of overvalued currencies, export promotion, tax reforms and import decontrols. The third type is institutional reforms that are primarily designed to promote efficiency and to liberalize trade by removing government controls of prices, exchange rates and interest rates and privatization and/or rehabilitation of state owned enterprises.

The general impacts of SAPs on the state and the private enterprise has already generated significant debate. Many argue that SAPs promote the private sector at the expense of the state since they trim the expenditures of the state and reduce its ownership of assets as well as its intervention in setting prices, interest rates and exchange rates. Others argue that SAPs, by bringing the state sector in line with present economic realities, rehabilitate the public sector and strengthen governments (Bates, 1989).

By favoring market over policy in allocation of resources, SAPs lessen state control. However, despite this apparent anti-state nature of the mechanism, many African states have found compliance with some form of adjustment acceptable, often disregarding protests by some sectors of the population, especially workers and urban consumers. One explanation for

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5 It is not clear whether the magnitude of intervention is a cause or an effect since it may itself depend on the degree of disarticulation of African economies and the weakness of their private sectors.

this is that these governments find themselves strapped for external funding. Perhaps a more convincing explanation seems to be that SAPs do not seriously threaten the interests of the high ranking state functionaries. SAPs, by promoting market allocation of resources, generally favor the economic elite and the relatively well off segments of the population. However, the political elite are not likely to find some loss of control intolerable since they can become an economic elite themselves by investing in the privatized enterprises.

The impact of SAPs on the peasantry, especially the subsistent segment, has not yet received much attention. We now examine how peasants fare under SAPs. Since space does not allow for a full treatment of all the components of SAPs, our analysis is limited to the impacts of expenditure retrenchment, devaluation and price decontrols.

Impacts of Deflationary Policies

Transforming the subsistence sector requires downward redistribution of available resources in order to improve their productivity and income and thereby raise aggregate demand for the overall economy. However, the debt crisis and the declines in commodity prices, foreign exchange earnings and resource inflows to the continent have made spending reductions unavoidable for most African countries. Yet, with political will it is conceivable that access to resources for the poor can be provided modestly even with deflationary policies. Some countries, namely Zimbabwe and Botswana, are, for example, said to have undertaken adjustments with serious efforts to minimize reductions in public services such as health, nutrition, education, and support for small farmers and drought victims (Cornia and Stewart, 1987:106-125). In most other African countries, where the state clearly protects the interests of the powerful and wealthy, the downward redistribution of resources is unlikely to materialize especially under deflationary policies. In fact, in many countries deflationary policies have already unproportionately affected the lower economic classes. Infant mortality is on the rise and nutrition, educational facilities, health services, access of small farmers to credits and inputs are on the decline in many African states and thus the exclusion of the peasantry and other lower classes is perpetuated. In other words, the same governments that are responsible for the prevailing political economy of exclusion cannot be expected to implement deflationary policies in a manner that will spare the poorer segments of society from further deprivation.

Thus, while redistribution of resources seems to be possible even under deflationary policies of a certain magnitude, they require the political will and carefully selected policies by the government. SAPs, however, lack a clear mechanism for protecting the poor and for providing access to resources for the subsistence sector. Proponents of SAPs expect that deflationary policies, by fine-tuning the economy, would, in the longer-run,

lead to a more vigorous economy and that economic growth would alleviate poverty and transform the peasantry. However, such expectations are overly optimistic as the long-run impacts of spending cuts depend on where the spending cuts are made. Retrenchments in public expenditures on infrastructure, health, education, credits, training, and nutrition are, as Girvan (1986:57) points out, contractions of investments which would lower economic efficiency, employment levels, aggregate demand, and consequently, overall growth even in the long-run[6].

Impacts of Devaluation

Overvaluation of currencies is generally regarded as the most important factor that has contributed to a number of Africa's economic ills, including the debt and agricultural crises. Overvalued currencies are believed to have discouraged African farmers and weaken the competitiveness of Africa's exports[7]. There are several problems with this assumption however. First the claim of overvaluation of African currencies is debatable since the real exchange rates of most African currencies have not appreciated significantly relative to those of other developing regions, and have appreciated substantially less than those of industrial countries since the mid-1960s (Wood, 1988:5)[8]. Secondly, contrary to the claim, exports are not discouraged in Africa. African economies are actually heavily biased in favor of the export sector as evident from their resource allocation patterns. The problem lies in the weakness of the domestic markets and the excessive reliance on the exports of primary commodities which have lost ground in the international market. Both of these conditions render African economies defenseless against external shocks. Targeting resources to the export sector even more without changing the mix of the exported commodities thus represents a perpetuation of Africa's weak position in the international division of labor and continued neglect of the domestic market.

Thirdly, the relationship between exchange rates and balance of payments is controversial both at the theoretical and empirical levels. Many studies such as Edwards' (1989) show a strong relationship between

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6 A more recent World Bank report (1989b) recognizes the importance of creating access to basic resources for the deprived segment of the population to enhancing development. However, it is not yet clear how the implementation of this is to be made an integral part of SAPs.

7 Bates (1989:222), for instance, correctly points out how overvalued currencies led to the smuggling of Ugandan coffee to Kenya and Ghanaian cocoa to Togo and Côte d'Ivoire or to abandoning of cash crop production by farmers in favor of food production. The high degree of overvaluation of the currencies of these two countries in the 1970s was, however, an exception Wood, 1988).

8 Even when they have not appreciated significantly relative to those of other regions, African currencies may be overvalued due to the weak performance of African economies. In this case, however, overvaluation may be an effect rather than a cause.

exchange rates and external balance of payments. There are, however, widespread disagreements on this issue. According to the monetarist approach, for instance, devaluation, has no permanent effect of exports and imports (Weeks, 1989:60). Empirical studies on the impact of devaluation on export performance in Africa are also inconclusive. Studies by Balassa (1987) and Gulhati (1986) show positive association between devaluation and export performance. By contrast, a case study of the Sudan by Hussain and Thirlwall (1986) finds that the impact of devaluation is at best neutral. A study by Bhagwat and Onitsuka (1974) also shows rather insignificant positive results. Of the Sub-Saharan African states included in this study, only 62% showed positive response of exports and 55% showed moderate declines of their imports after devaluation(Bhagwat and Onitsuka, 1974). Moreover, the data for this study were of the 1960s when the terms of trade for primary products were more favorable than they have been since the second half of the 1970s. A study by Mengisteab (forthcoming) also finds no significant relationship between real or nominal exchange rates and export performance for fourteen Sub-Saharan African countries between 1966 and 1983.

An analysis of variance of the performances of exports (X), imports (M), gross domestic products (GDP) and current account balances (CAB) of four groups of African countries, classified on the basis of their devaluation rates between 1980 and 1987, also shows no clear indication that devaluation has impacted economic growth or external balance (see Table 5). The four groups of countries are countries with nominal devaluation rates of over 1000% (GP1), countries with devaluation rates of over 100% and less than 1000% (GP2), countries with devaluation rates of less than 100% (GP3) and group four (GP4) are countries with no devaluations or with revaluations (see Table 5).

The results (Table 6) do not confirm the presumption that the volume of exports will rise with devaluation. The only significant difference is between groups two and three, and in this case, with much lower devaluation rates, group three outperformed group two.

One important reason why the response of exports to devaluation has not been as expected by SAPs is due to the low price elasticity of demand of primary commodities (see Table 7). If only a small number of primary commodity exporters devalue, they can raise the volume of their exports and their export earnings at the expense of other exporters. With SAPs, however, we have large numbers of them devaluing simultaneously in an attempt to increase the volume of their exports in an already oversupplied market. Given the low price elasticities of primary commodities, this condition only leads to a further fall in commodity prices and consequently, to a declines in export earnings.

Table 5: Devaluation Rates and Growth Rates of Exports (X), Imports (M), Gross Domestic Product (GDP and Current Account Balance (CAB)

Country	Devaluation rate in %	X	M	GDP	CAB
GP1					
Ghana	5490.3	2.8	2.2	0.9	-237.3
Sierra Leone	2836.9	-7.6	-24.7	-0.3	23.8*
Zaire	3914.4	3.0	-5.0	1.5	-23.0
Zambia	1106.8	-2.2	-8.4	-0.1	-0.8
Guinea Bissau	1554.3	-1.8	5.9	4.0	3.3!
GP2					
Madagascar	406.1	-7.4	-10.4	0.03	20.5*
Malawi	171.1	1.1	-4.9	2.0	-778.5
Nigeria	634.5	-11.1	-17.6	-2.6	298.7
Sudan	500.0	-3.5	-8.0	0.9	12.1
Tanzania	683.9	-4.1	-2.0	1.6	-1.9*
GP3					
Cameroon	42.2	9.5	2.9	6.2	210.0*
Kenya	81.9	2.4	-2.8	3.3	-88.1
Côte d'Ivoire	42.2	-0.3	-6.8	0.7	13.5*
Burkina Faso	42.2	5.6	-1.2	5.2	-265.9*
Mauritius	67.6	11.6	10.0	5.6	53.7
GP4					
Ethiopia	0.0	-0.02	7.9	3.5	-826.9*
Liberia	0.0	-3.9	-6.1	-1.4	59.1
Rwanda	-14.2	3.5	5.8	2.2	-24.2

* = Average of six years is used due to missing data.

! = Average of five years is used due to missing data.

Source: IMF, *International Financial Statistics: Supplement on Trade Statistics*, supplement series, No. 15, 1988 and United Nations Development Program and The World Bank, *African Economic and Financial Data*, 1989.

Despite its controversial impact on export earnings, devaluation redistributes income in favor of the producers of exports. This certainly benefits the cash crop producing farmers. The food producing subsistent peasantry, however, benefits little from such redistribution. Devaluation of the Ghanaian cedis has, for instance, raised the producer price for cocoa from c12,000 per tone in 1983 to c174,000 per tone in 1989. However, only 18% of Ghana's farmers produce cocoa and 94% of the gross cocoa income went to 32% of the cocoa producers who have large operations (Araka et al., 1990:7). High

levels of exchange rates may provide domestic food producers some protection from foreign competition. On the other hand, this benefit may, also be neutralized by the increases in the prices of inputs and consumer goods that follow from devaluation. Furthermore, its productive capacity needs to rise first before the subsistence sector can benefit from protectionism.

Table 6: Responses of Exports, Imports, GDP and Current Account Balance to Devaluation

	Exports	Imports	GDP	Current Acc. Bal.
F Value	4.91	1.64	3.28	0.46
PR	0.02	0.22	0.053	0.72
R2	0.51	0.26	0.413	0.09
Mean GP1	-1.16	-6.0	1.2	-46.8
Mean GP2	-5.0	-8.58	0.39	-89.82
Mean GP3	5.76	0.42	4.2	-15.36
Mean GP4	-0.14	2.53	1.43	-264.0
Mean Differences				
GP1 - GP2	3.84	2.58	0.81	43.00
GP1 - GP3	-6.92	-6.42	-3.00	-31.40
GP1 - GP4	-1.02	-8.53	-0.23	217.20
GP2 - GP3	-10.76*	-9.00	-3.81	-74.50
GP2 - GP4	-4.86	-11.11	-1.05	174.20
GP3 - GP4	5.90	-2.11	2.77	248.60

* = Significant at the 0.05 level.

Table 7: World Demand Elasticities of Selected Primary Exports

Product	Demand Elasticity
Cocoa	-0.300
Coffee	0.230
Tea	-0.250
Sugar	-0.500

Source: Pasquale L. Scandizzo and Dimitri Diakosaxas, *Instability in the Terms of Trade of Primary Commodities, 1900-1982*, Rome: FAO, Economic and Social Development Paper, No. 64, 1987.

Under SAPs, devaluation is implemented simultaneously with import decontrols. Indications are that these two policies appear to further narrow the production base of African countries by exposing their infant industries to competition from more experienced and more efficient exporters. The recent experiences of Nigeria, Tanzania, Ghana and Ivory Coast, for instance, suggest that reductions of trade barriers can bring about a flood of cheap imported products which undercut local producers despite the protection devaluation provides (Harsch 1988:14). In the Ivory Coast, the number of workers employed in textiles dropped from 12,000 in 1982 to 8,000 in 1987 due to imports (Harsch 1988:14). In Nigeria, closures have become rampant, with manufacturers often blaming the difficulties on the reduction of protectionist barriers and on the sharp cost increases for imported raw materials and spare parts brought on by devaluation (Harsch 1988:14). Further devaluation, which may only reduce foreign exchange earnings and makes imported intermediate goods beyond the reach of producers cannot be used to protect local producers. Thus, devaluation and import decontrols may have negative impacts on the transformation of the subsistence sector as well as on the diversification of African economies.

Impacts of Price Decontrols

As Bates (1981:11-44) points out, producer price controls generally benefit the state itself, the bureaucracy, the industrial sector, which with low food prices, can keep wages low, and the urban consumers, who have a stronger political influence than the producers. Yet, producer price increases also have limited impacts on the subsistence sector. Higher prices would certainly encourage surplus-producing (above subsistence) farmers to raise their production. As far as the rest of the subsistent peasantry is concerned, however, it requires productivity improving changes before it can benefit fully from higher prices. Zimbabwe's relative success in agriculture, for instance, is attributed to a combination of factors that go far beyond SAPs. These factors include the government's provision of favorable pricing to producers, increased access to credits, inputs, technical assistance, marketing facilities, tools, grain depots, health and educational services (Cornia and Stewart, 1987:123).

Producer price reforms thus need to be implemented together with provision of extension services to farmers and not with deflationary policies that cut credits and input subsidies to subsistence farmers. Otherwise, the reforms may actually become a means of perpetuating the exclusion of a large segment of the peasantry from access to resources. Bonn's observation of Malaxi's farmers, for example, indicates that in reaction to cuts in fertilizer subsidies, small farmers avoided planting high-yield hybrid maize in favor of traditional varieties with lower fertilizer requirement and, of course, with lower yields (1988:27).

Conclusion

To prevent their continued marginalization from the global economy, African economies certainly need major reforms to engender efficiency in resource allocation and export competitiveness and thereby to bring their economies in line with present international realities. However, such changes need to begin with the transformation of the subsistence sector, import-substitution at least in food production and diversification of exports. As our analysis shows, SAPs, in their present form, are not equipped to achieve these. The adjustment process in Africa thus needs to be modified in several areas.

First, it needs to be tied to political reforms. Democratization or at least a political commitment on the part of the state to ensure the provision of access to resources for the excluded segments of society is a necessary condition for correcting Africa's structural problems. Without such commitment, the subsistent sector is unlikely to benefit from price decontrols or devaluations. The efficiency and growth-first improvement of human conditions-later policies that SAPs espouse are unlikely to work in Africa for various reasons among which are:

(1) the sheer size of the excluded segments of the population;
(2) the desperate conditions of the excluded;
(3) the multi-cultural nature of African states which makes it difficult to exclude large segments of the population from access to resources without inciting social unrest often times along ethnic lines;
(4) the fragile nature of nationhood which makes it crucial that the political economy of exclusion is alleviated; and
(5) the awareness of the general population of its deprivation as it is relatively informed about living conditions elsewhere.

Secondly, agriculture, especially food production, should be given top priority. Since the benefits to the food sector from devaluation are not clear, food producers need to be favored in obtaining access to inputs, credits as well as favorable prices. They may also require some degree of protection from imports.

Finally, diversifying African exports and thereby modifying Africa's position in the international division of labor requires active state involvement in economic policy formulation, including some forms of selected protection and subsidies. Late-comers to industrialization are unlikely to succeed without such measures. The across-the-board import decontrols advocated by SAPS thus need to be qualified. African states also need to establish closer cooperation among themselves perhaps through regional economic integration schemes and closer cooperation between regional integration schemes not only to coordinate their industrial strategy but also their export and import strategies.

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