# The Design of Structural Adjustment Programs: The African Alternative Framework

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**Résumé:** *La récession mondiale et les crises économiques des débuts des années 1970 ont rendu nécessaire un ajustement de toutes les économies aux paramètres économiques du monde. Les pays en développement en particulier, ont eu beaucoup de difficultés à s'ajuster structurellement aux facteurs endogènes et exogènes. L'auteur de cet article estime que pour l'Afrique, ces difficultés sont plutôt liées à des facteurs endogènes. Pour la CEA, l'ajustement structurel doit être conçu comme un projet à long terme qui a besoin de beaucoup de flexibilité. La stratégie à mettre en place doit tenir compte des spécificités de chaque pays selon leurs besoins, leurs priorités et dans le long terme.*

## Introduction

### *Background*

As a result of the world recession and economic crises since the beginning of the 1970s, all economies in the world - developed and developing - had to adjust to changes in the world economic parameters, particularly with respect to relative prices for goods and services, so as to exploit judiciously their own dynamic comparative advantages or to establish the required national mix between self-reliance and openness. In this way, the "adjustment" was nothing but the formulation and execution of a set of policies to ensure sustained growth and development, or at least recovery after a recession.

The developing countries in particular faced difficulties and deficiencies in implementing the policy changes of adjustment since sensible domestic policies in these countries would have to take proper account of both external and internal shocks, but not address one set of shocks at the expense of other perhaps equally important or allow short-term preoccupations beginning of the 1980s, several developing countries in the world in general, the African countries in particular, continued to face themselves with continue decline in their per capita GNP and the living standard of their population. There is no unanimity among the economists about the root causes and cures of the socio-economic crisis in developing Africa where the situation remains still more bleak than the other developing continents - Asia and Latin America.

On the other hand, there is a tendency to believe that the roots of the crisis and what is to be done are largely due to the bad policies that the

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African governments have pursued so far which have brought about the problems of population growth, environment degradation, migration due to regional conflicts, inadequate health and education facilities and run down and inadequate infrastructure. The short-fall of external resources made worse by the relentless burden of overseas debt was the only exogenous problem.

Thus, according to this view, the causes of African crisis come mainly from the endogenous rather than exogenous factors[1].

The endogenous factors include inadequacy and/or misdirection of human and financial resources, inappropriate economic strategies and policies, inadequacy of institutional and physical infrastructures, inadequate demand management (uncontrolled fiscal deficits) inappropriate employment and wage policies, subsidies, debt, etc. and inadequate structural policies (such as appreciation of real exchange rate, price controls, reliance on public sector). Therefore, the orthodox structural adjustment programs (SAPs) that the IMF/World Bank are running in the majority of the African countries and the rule of the market, represented an unquestionable basis for the way forward in Africa.

On the other hand, the African view while acknowledged the contribution of endogenous or internal factors to the Africa's crisis, painted in the international or exogenous factors, namely debt burden, the collapse of commodity prices, deteriorating terms of trade and the overall injustice of the international economic order as central to the African continent's crisis[2].

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1 This view is supported by the international community including the World Bank and the IMF. World Bank/UNDP report, *Africa's Adjustment and Growth in the 1980s*, Washington, D.C., 1989 and World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study* (Washington, D.C.: IBRD/the World Bank, 1989; see also *West Africa*, 25 June - 1 July 1990 particularly the statement by Mr. Douglas Hurd, the British Secretary of State for Foreign and Commonwealth Affairs that: *Aid must go where it can clearly do good. Potential recipients of Western aid must be countries tending towards pluralism, public accountability, respect for the rule of law, human rights and market principles. Governments which persist with repressive policies with corrupt managements, or with wasteful and discredited economic systems should not expect us to support their folly with scarce resources which could be used better else where*, *West Africa*, 25 June - 1 July 1990, p. 1077.

2 This view is held by the ECA and the OAU. See UNECA, African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation (E/ECA/CM.15/6/Rev.3), Addis Ababa, Ethiopia, April 1989. These exogenous variables fall into three broad groups: (1) the international market system (fall in primary commodity prices, structural shifts in commodity demand, increasing prices of imports, etc.); (2) the international monetary and financial system (rules, institutions, policies regarding international monetary and financial transactions, creation and distortion of international liquidity, determination of exchange rate, etc.), and (3) the politics of developed countries (resource flows, protectionism, interest rates and deflationary and inflationary policies, etc.).

In fact Africa's debt has grown from US$48 billion in 1980 to $81.7 billion in 1984 and to $256.9 billion in 1989, with a service burden of US$25.3 billion. The debt represents 93.3% of regional GDP and 328.4% of total export earnings, and the service 32.2% of these earnings; in terms of these ratios, Africa is the most indebted region in the world. The net outflow of resources from Africa in 1989 was US$6 billion with US$1.5 billion (or 25%) going to the IMF and the World Bank. The continued decline in commodity prices made repayment on schedule virtually impossible, the prices of major export commodities (coffee, cocoa, cotton, ground-nuts, etc.) represent today 54.2% of what they were in 1980, and the loss due to price declines reached US$50 billion in 1988, almost in quarter of its export earnings. The forces of nature conspired with those of international economic conditions to aggravate the crisis. Episodes of natural disasters such as drought, desertification, floods, cyclones, locust, etc. led to several poor harvests and, in some African countries, outbreaks of famine. The suffering of the people was matched by dwindling productivity. Earnings from the export of food were replaced by outlay of scarce foreign exchange credits for food imports.

Therefore, the root of the crisis is "fundamentally structural and long-term in nature", requiring structural transformation and economic diversification to move the continent away from inherited colonial structures of monoculture for exports, towards more self-reliance, particularly in food and the creation of regional markets. This African view accepts the need for adjustment, but seeks a more flexible attitude by donors that would allow African countries to switch from primary production aimed at export markets that entail diminishing returns to production for domestic and regional markets. Such policy shift can possibly ensure faster economic growth given the huge needs and demands that exist in the region. This would give a cushion to the economy from external shocks such as the collapse of the commodity market in the 1980s which brought about the current crisis. Programs of recovery must therefore tackle fundamental long-term, as well as short- and medium-term problems. To proceed otherwise, as in the case of the former view with structural adjustment programs (SAPs) is to render programs purportedly geared to recovery counterproductive, because such programs no matter how well funded by the international community - the IMF and the World Bank, are unsustainable. SAPs are a "case of the tail (adjustment) wagging the dog (development and transformation)"[3]. The orthodox measures aimed at restoring growth cannot be successful without addressing the fundamental structural bottlenecks of African economies, defined as having a very narrow productive base,

3 Prof. Adebayo Adedeji, in *West Africa*, 25 June - 1 July 1990, "Crossed Visions", p. 1077.

excessively dependent on the outside world, with often undemocratic institutions and a highly uneven distribution of income that encouraged a high consumption of luxury Western imports.

In fact, as a result of such economic crisis, several African countries have embarked in the 1980s on stabilization and structural adjustment programs with or without the encouragement or support of the IMF and the World Bank. As many as 33 African countries had put in place stabilization programs under the IMF stand by arrangement facility while 15 countries had structural adjustment programs under the structural adjustment loans of the World Bank. Unfortunately, despite all these adjustment efforts with the concomitant sacrifice their people had to bear, the social and economic conditions in most African countries have continued to deteriorate rather than improve[4].

For most African countries, there has been a lot of frustrations about the unsuccessful efforts to design and implement policies to generate economic prosperity. All economic and social indicators showed that little progress has been achieved during the decade despite efforts of well-intended policies choices and policy reforms described in the orthodox structural adjustment programs (SAPs) followed by them[5]. This situation can be depicted in the Figures 1 and 2 which show the evolution of the various socioeconomic indicators and terms of trade respectively. By 1988, per capita consumption decreased by 20% of total expenditure in 1988 against 25.2% in 1986 whereas military expenditures increased; and unemployment affected 20 million Africans in the formal sector and 95 million of workers are underemployed. With the fast-rising population, crisis has led to deindustrialization poorer health and falling education standards. The combined share of agriculture and manufacturing in Africa's GDP declined steadily from about 50% in the 1960s to only a little more than 30% in the 1980s. The World Bank 1988 report asserted that sub-Saharan African countries which implemented structural adjustment programs experienced after adoption of SAPs: (a) GDP growth decline from 2.7% to 1.8%; (b) a decline in the investment/GDP ratio from 20.6% to 17.1%; (c) a rise in the budget deficit from -6.5% to 17.1%; (c) a rise in the budget deficit from -6.5% to -7.5%; and (d) a rise in the debt service/export earning ratio from

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4 See UNECA *Economic Report on Africa*, 1989, Addis Ababa, April 1989; *Economic Report on Africa*, 1990, Addis Ababa, April 1990 and *Survey of Economic and Social Conditions in Africa*, Addis Ababa, various issues 1986-1987, 1987-1988 and 1988-1989.

5 The World Bank/UNDP report *Africa's Adjustment and Growth in the 1980s*, Washington, D.C., 1989 which asserted that the economic indicators of adjusting countries are performing better than the non-adjustment countries was contested by the ECA's report *Statistics and Policies*, April 1989.

17.5% to 23.4%. It has been, however, only a minor improvement in the current account/GDP ratio from -9.4% to -6.5%[6]. (See Fig. 1.)

Social and economic advances made with great difficulty by the African nations since the era of independence in the 1960s were largely wiped out in the 1980s. Between 1980 and 1987, the average annual rate of growth of the gross domestic product (GDP) of these countries was only 0.4% - in fact a decline when population growth is taken into account. Per capita income, already low at the end of the 1970s, fell by 2.6% a year. Agricultural output decreased, and countries that once exported food found themselves unable to feed their own populations. There has been a marked deterioration in physical infrastructure. Social services, including education, public health and sanitation, housing assistance and running water, have been reduced to perilously low levels. The SAPs strived to redress macro-economic imbalances while putting on temporary hold the development goal of eliminating Africa's cycle of excruciating poverty and abysmally low levels of productivity.

The regional economy, in short, is worse off than it's been since the beginning of the post-independence period, and a new generation of Africans faced a highly problematic future. The scenario of economic decline can be easily described. The prices of agricultural and mineral commodities, upon which most of Africa depends for export earnings, began to fluctuate unpredictably in the 1970s. The bottom fell out in the 1980s. African commodities valued at US$100 wholesale in 1980 fell to $54.2 in 1988. Prices for export items corrected for inflation reached their lowest levels since 1940 (see Figure 2).

The solution, it seemed at first, was to take out loans from overseas lenders, so that development programs could proceed and the standard of living of the population protected during an apparently temporary downturn in commodity prices. Since interest rates were low at the end of the 1970s decade and inflation relatively high, it seemed the loans could be paid back easily. The strategy made sense to officials of the World Bank and the International Monetary Fund (IMF), to private financial institutions and national government lenders and to African leaders.

The course of events proved that wrong. The decline in commodity prices turned out to be a long-term trend, one that it is now thought will continue into the 21st century. Interest rates rose in the 1980s as inflation went down, and the supposedly painless cost of repaying loans became instead a staggering burden.

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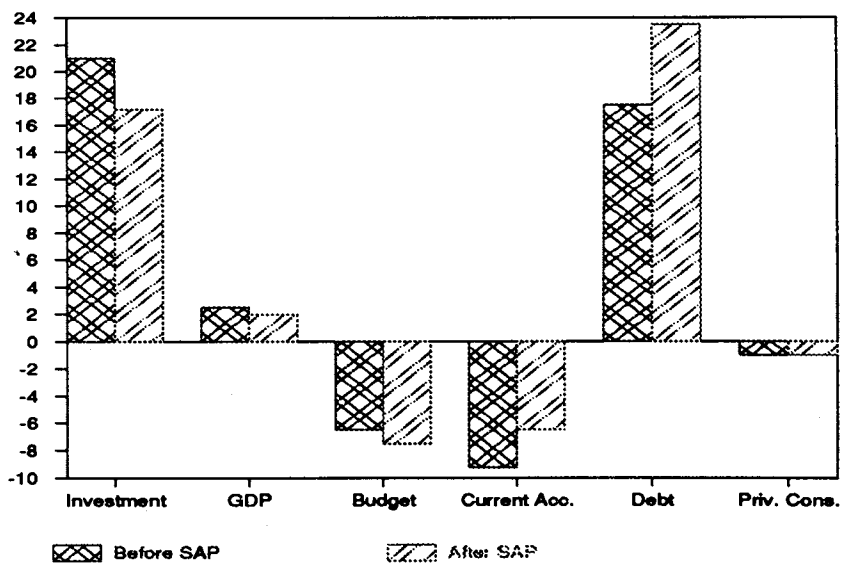
6 See World Bank, *Report on Adjustment Lending*, Washington, D.C., 8 August 1988, p. 45.

Payments mounted; new loans were taken out to help make the payments, but only increased the debt; the continued decline in commodity prices made repayment on schedule virtually impossible.

While some developing countries in Asia and Latin America have demonstrated impressive economic growth and rising living standards during the 1980s, most African countries have experienced stagnation and setbacks (see fig. 3). GDP of East Asian countries is estimated to have increased by 8%, in 1988, up from 7.1% growth in 1987. Thailand's GDP in 1988 rose by 10.5% and Malaysia's GDP grew by 7.34% as compared with 6.4% growth in the Philippines. The ESCAP (Economic and Social Commission for Asia and the Pacific) attributes such dynamic performance of South-East Asian economies to their agricultural recovery from the unfavourable weather patterns of 1987. Growth in developing Asia today is much more balanced and evenly spread.

**Figure 1: Evolution of Macro-econ. Indicators in 15 sub-Saharan African Countries (av. an. in %)**

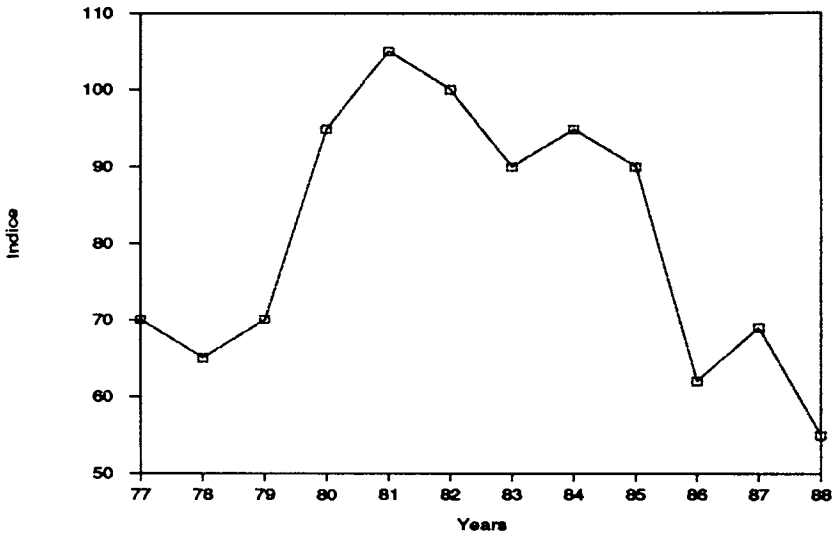



Investment = Investment (% of GDP)
GDP = GDP (annual growth rate)
Budget = Budgetary deficit (% of GDP)
Current Acc. = Current Acc. (% of GDP)
Debt = Debt service (% of exports)
Priv. Cons. = Priv. Cons. (Per capita growth)

Figure 2 shows that there has been a deterioration in the terms of trade for the African continent as a whole.

Figure 3 compares Africa with other developing regions in terms of performances of GDP per capita before (1973-80) and after (1980-88) adjustment period.

**Figure 2: Deterioration of Terms of Trade for Africa as a Whole (base 100 = 1980)**

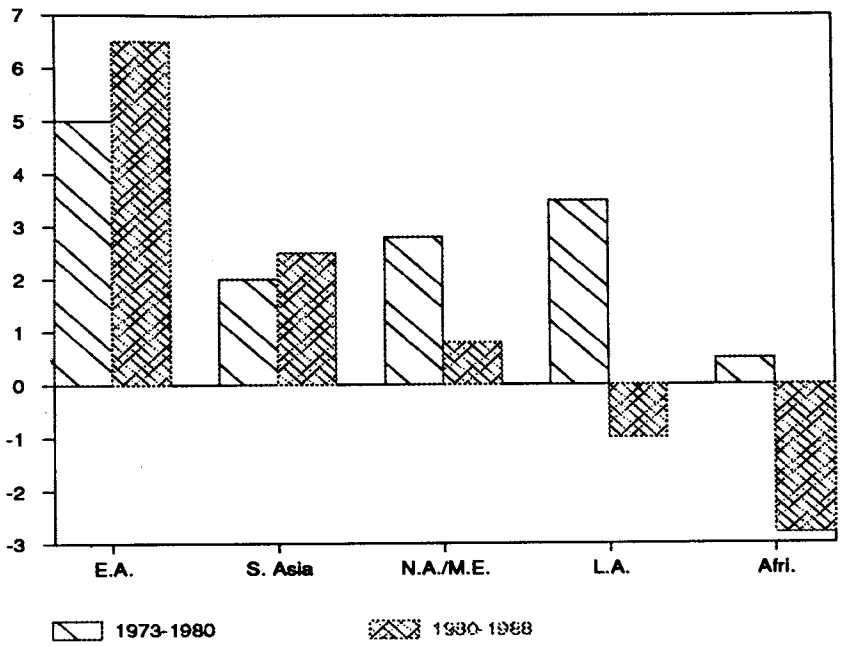



It is more than evident now that inadequate understanding of the process of economic development and growth shortages of both human and physical capital and the weakness of a number of development institutions are some of the constraints that have eroded the efforts of African countries to transform their economies and launch them on the path of self-sustaining development and growth. It is also clear that the lack of strongly well defined policies and strategies designed essentially from national perspective, have had the effect of clouding the vision of African decision-makers about the mutual impacts of different national economic policies on each other's economies.

It was against this background of a general dissatisfaction with the on-going stabilization and structural adjustment programs that the United Nations Economic Commission for Africa (ECA) has devised a development framework and policies which can transform and diversify Africa's production capacity and increase the productivity of investment on the basis of the internalization of the dynamics of growth and their short-term

sequencing to ensure that development and growth can be achieved at high and sustained levels.

**Figure 3: Africa's Growth Performance Compared with Other Developing Regions**
**(Av. ann. % Change in GDP per head)**




E.A. = East Africa
S. Asia = South Asia
N.A./M.E. = North Africa & Middle East
Afri. = Sub-Saharan Africa
L.A. = Latin America & the Carribean

***Conception Development of AAF-SAP***

The United Nations General Assembly resolution 43/27 of November 1988 urged African countries to come up with a conceptual and practical framework for adjustment to economic crisis that also supported long-term development. Hence, the Economic Commission for Africa (ECA) undertook an investigation of such an alternative. The search was conceived from the beginning as a process of reaching a consensus among African nations and between Africa and its bilateral and multilateral development partners. An International Advisory Board included African and non-African government leaders and representatives of international organizations including the IMF and the World Bank. The ECA search for a structural

adjustment program that will bring about the transformation of the African economies was a part of a process for finding the ways and means of reversing the deterioration in the African economies which has been going on now for more than a decade and installing in its place self-sustained and sustainable development. The basic theses of the African alternative are that:: (a) no program or plan will work unless it is seen as being indigenously formulated and implemented; (b) that the diversity of African situation will not be addressed through the application of standard formulae for all of them; (c) that the crisis overwhelming Africa must be seen first and foremost as a human one and not merely in terms of macro- economic disequilibrium; and (d) that developmental concerns such as the alleviation of poverty, the improvement of health, nutrition, education and productivity cannot be put on hold while resources are consumed by the need to correct economic imbalances.

The preliminary findings were discussed at an international workshop of economists from Africa and other countries held in Addis Ababa, Ethiopia, in January 1989 to which about 100 top African and non-African development economists were invited. For three days, 3-5 January 1989, the workshop deliberated and examined critically the initial results and preliminary findings that had emerged from the case study and other specific studies that had been undertaken and came up with a number of useful recommendations. After further elaboration, the proposals were examined by a meeting of senior officials of Ministry of Finance and Central Banks, both held in Blantyre, Malawi and both concluding in March 1989. Incorporating revisions made at these meetings, the African Alternative was submitted to the twenty-fourth session of the ECA and the fifteenth meeting of the Conference of African Ministers Responsible for Economic Planning and Development, both taking place in Addis Ababa from 27 March to 9 April 1989. The final stage in the consensus-building process was the joint meeting held in Addis Ababa on 10 April 1989, which adopted the African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation. The text was prepared for publication and released in London on 6 July 1989[7].

To understand better the African Alternative Framework is to show to what extent it is fundamentally different from the conventional structural adjustment programs. Section II of the paper summarizes and criticizes the main tenets or methods of the IMF/World Bank's design of structural adjustment programs (SAPs) in the 1970s and 1980s. Sections III and IV show in what ways the design of the African Alternative Framework

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7 See UNECA, *The African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation* (AAF-SAP) Addis Ababa, April 1989.

(AAF-SAP) differs from orthodox SAPs in terms of policy directions and policy instruments, implementation and monitoring, and financing. Section V will be a brief conclusion to our paper.

**The Design of Orthodox Structural Adjustment Programs (SAPs)**

Although structural weaknesses were at the root of the crisis of the 1970s and 1980s, donor countries and financial institutions believed that the most glaring problems were financial imbalances: trade deficits, budget deficits, inflation and a mountain of external debt. Hence, beginning the 1970, several African countries were forced to adopt emergency measures known as stabilization and Structural Adjustment Programs (SAPs) which were designed by the two major international financial institutions, the International Monetary Fund (IMF) and the World Bank, respectively. Future loans and aid were made conditional on acceptance of the terms of the SAPs. Between 1980 and 1988, 33 African countries entered into the IMF program known as the Standby Arrangement Facility and 12 were enrolled in the Extended Fund Facility; 15 received Structural Adjustment Loans from the World Bank.

It can be said with the benefit of hindsight that these programs for recovery mistook the symptoms for the disease. The SAPs aimed at correcting financial imbalances of a two-dimensional nature, and put off dealing with structural transformation. Yet the reality of Africa, as of the rest of the world, is three-dimensional, made up of flesh-and-blood people, material resources and social and political structures. It is in the structural realm that the causes of financial shortfalls are to be found, and it is here that recovery measures must be addressed.

***Policy Aims of SAPs***

The IMF established to smooth out world-wide financial dislocations largely through short-term loans, saw the heart of the problem as finance deficits, grounded in over-heated demand in African countries brought on by the too-rapid expansion of credit. This led to the conclusion that a reduction in domestic demand through a tightening of credit would reduce balance of payment deficits and help governments balance their books. The "stabilization policies" which it advised operate on demand management through fiscal and monetary restraint which aim to achieve balance-of-payments stability and lower domestic price inflation by reducing real incomes and therefore domestic demand for imports (and exportables), as well as expenditure cutbacks, especially in the public sector, which is a major contributor to increased demand in developing economies. Most of the stabilization policies were designed to work in the short-term between one and two years, in the hope that a brief period of austerity will permit the attainment of internal and external balance and so provides the basis for the restoration of long-term growth including future creditworthiness. But, in

practice, it was found that in developing countries the austerity generated by stabilization programs has undermined growth prospects and discouraged both domestic and foreign investment.

The World Bank, with a mandate to aid development in the countries of the world through long-term loans and grants, took a broader view of adjustment, but was also preoccupied with African debt. It prescribed "structural adjustment policies" aimed at reducing current deficits over the medium-term (3-5 years) by making the whole economy more efficient, primarily through expanding and diversifying the production of tradeables (exports and import substitutes). This is done through altering or restoring appropriate price relationships between the domestic and external economy (i.e. changing the exchange rate to correspond to the hitherto unadjusted deterioration in terms of trade) and within the economy itself (e.g. adjusting producer prices among sectors and among products, altering the mix between producer and consumer prices to provide incentives to the former, and perhaps within the former to lay stress on export production or import substitutes such as food in a food deficit country) or by raising prices of or reducing the subsidies to government services relative to the private production sector. Establishing better price relations (getting the prices right) is deemed to support an efficient reallocation of resources by encouraging investment to flow into the key sectors identified under the structural adjustment programs (SAPs).

Thus, the IMF and the World Bank pursuit a narrow range of policy objectives dealing chiefly with increasing public sector efficiency, removing price distortions, increasing trade liberalization and promoting savings. Both these institutions agreed that continued loans and aid to African countries would depend on compliance with the following policy mechanisms:

- equalizing exchange rates with the rest of the world by devaluing currencies set artificially high by governments;
- setting higher interest rates to encourage savings and efficient use of resources;
- tight-fisted control of money supply and credit;
- cutbacks in government spending and less use of deficit financing of government projects;
- liberalization of trade;
- allowing the free market to determine prices; and
- turning government enterprises over to private businesses.

These technical measures, when put into practice, spelled out an austerity regiment that meant immediate hardship for countries and people. It was felt, however, that bitter medicine was needed to restore economic health. To assist the IMF and the World Bank in convincing financially troubled countries to take the medicine, other bilateral and multilateral financial institutions linked their own assistance to adoption of SAPs.

### *Theoretical Framework of SAPs*

Although the structural adjustment programs proposed to the developing countries differ according to the specificity of the problems and the characteristics of a given country, it is generally accepted that the theoretical framework underlying these programs originated from monetary models of policy prescriptions in developing world. These models are predicated on the perceived role that excessive money creation and exchange rate over-valuation play major role in causing inflation and balance-of-payments disequilibrium. This is being referred to as the monetarist approach. The foundation of this theory owes much to the 1957 Polak Model[8].

Polak contains that money supply equals domestic credit plus external reserves. From these elements follows the monetary theory of the balance of payments according to which increases in domestic credit leak abroad through balance-of-payments deficits and reserves because to maintain monetary and income equilibrium, credit expansion must be offset by a reduction in reserves which, in turn, implies a balance of payments deficit. From this macro-logic emerges the so-called the "giant triplets" of conventional stabilization and exchange rate stabilization.

These triplets are considered within the *ex post* budget constraints of the private sector, the government sector, the foreign sector and the monetary sector.

In the private sector, the constraint is derived from the following equation:

$$S + \Delta DCP + F_p = I + \Delta B^d + dL^d \qquad (2.1)$$

which indicates that the source of funds or savings plus changes in domestic credit to the private sector (sDCP), plus capital inflow to the private sector ($F_p$) must be equal to the uses of funds, that is, investment (I), plus purchases of government securities ( $B^d$), and acquisition of liquidity balance ( $L^d$). In other words, the saving gap must be financed as follows:

$$I - S = \Delta DCP - \Delta B^d + F_p - \Delta L^d \qquad (2.2)$$

In the government sector, the constraint is represented by the equation:

$$G - T = \Delta DCG + \Delta B^s + F_g \qquad (2.3)$$

which states that the budget deficit (G-T), government expenditures (G) minus taxes (T), is financed through money creation or domestic credit to the government (dDCG), borrowing from the private sector ( $B^s$) and capital inflow to the government ($F_g$).

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8 See Plak, J.J., "Monetary Analysis of Income Formation and Payments Problems", IMF, *Staff Papers*, vol. 6.

In the foreign sector, the balance of payments constraint is represented by the equation:

$$X - M = \Delta R - F_p - F_g \quad (2.4)$$

which indicates that the current account deficit or surplus (X - M), exports (X) minus imports (M) is equal to the change in international reserves ( R) minus net capital inflow to the private sector ($F_p$) and to the government ($F_g$).

And finally, in the monetary sector, the flow equilibrium in the money market is represented by the equation:

$$\Delta L^d = \Delta R + \Delta DCP + \Delta DCG \quad (2.5)$$

which indicates that the flow demand of money ( $L^d$) is equal to the flow supply of money ( $L^s$), which in turn comprises the change in international reserves ( DR), domestic credit creation to the private sector ( DCP) and to the government ( DCG).

The overall budget constraint for the economy can then be obtained by consolidating all four budget constraints in the equations (1.2), (1.3), (1.4) and (1.5) which lead to:

$$(I - S) + (G - T) + (X - M) = (\Delta B^s - \Delta B^d) + (d1^s - \Delta 1^d) = 0 \quad (2.6)$$

Since, in *ex post*, all markets must clear, that is, supply has to equal demand in each market, the above identity (2.6) can be represented by the following equilibrium equations for, respectively the commodity market, the bonds or capital market and the money market:

$$(I - S) + (G - T) + (X - M) = 0 \quad (2.7)$$

$$\Delta B^s = \Delta B^d \quad (2.8)$$

$$\Delta L^s = \Delta L^d \quad (2.9)$$

The *fiscal stabilization* system from the equation (2.7) which leads to:

$$X - M = - (I - S) - (G - T) \quad (2.10)$$

Assuming that (I - S) is "stable" or at least "fairly small and predictable", the fiscal stabilization theory concludes that any increase (or decrease) in the budget deficit (G - T) will result in an increase (or decrease) in the trade deficit (X- M). Or it can be assumed that the private sector surplus (deficit) (I-S) is functionally related to the change in income, the rate of interest or inflation, and domestic credit creation to the private sector.

$$I - S = F ( \Delta Y, P, \Delta DCP) \quad (2.11)$$

where $F_10$, $F_20$ and $F_30$. In that case, the fiscal equation becomes:

$$X - M = - F (\Delta Y, P, \Delta DCP) - (G - T) \quad (2.12)$$

which implies that (i) an increase in income will lead to a deterioration in the current account of the balance of payments and (ii) an increase in the budget deficits will result in an increase in the trade deficit of equal magnitude. The first proposition follows from the Keynesian assumption that an increase in income will lead to an increase in imports and possible

deflection of exports to home consumption[9]. The second implication depends on the assumption made by the "New Cambridge School" that a change in budget deficit does not affect the private sector *surplus or deficit* (the saving gap)[10]. Thus, it follows that the external trade deficit can originate from either the domestic saving gap or the government deficit or both. If the origin of external deficit is due to the government deficit, then it can only be eliminated by reducing government spending (G) to the level of tax revenue (T) or by increasing tax revenue to the level of government spending, which is difficult in view of low tax base in developing countries. Hence, there is a necessity for fiscal stabilization usually to adjust through reduction of domestic absorption.

The *monetary stabilization* emphasizes the equilibrium in the money market given by the equation (2.9). Assuming by simplicity that the money multiplier is equal to unity, then the flow of money supply will consist of the change in international reserves (R), which is equal to the overall balance of payments and the domestic money creation, which is equal to credit creation to the private sector (DCP) and to the government (DCG).

$$\Delta L^s = \Delta R + \Delta DCP + \Delta DCG \qquad (2.13)$$

The flow demand for money is assumed to be a function of change in income (dY) and the rate of interest (r)

$$\Delta L^d = L (\Delta Y, r) \qquad (2.14)$$

Where $L_10$ and $L_2$ In the case where there are no observable data on interest rate, the rate of inflation (p) can be considered as a proxy for the interest rate.

$$\Delta L^d = L (\Delta Y, P) \qquad (2.14 \text{ bis})$$

Combining equations (9), (13) and (14 bis) lead to the basic monetary stabilization equation which determines the change in international reserves (overall balance of payments)[11]:

$$\Delta R = L (\Delta Y, P) - \Delta DCP - \Delta DCG \qquad (2.15)$$

This equation implies that (1) an increase in income will lead to an improvement in the balance of payments; and (2) an increase in domestic credit creation to the private sector or to the government will yield a balance of payments deficit of equal magnitude (offset coefficient of -1). The first proposition follows from the assumption made by the monetarists that income, prices and the rate of interest are exogenous (small country

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9 See Turnovsky, S.J., "The Dynamics of Fiscal Policy in an Open Economy", *Journal of International Economics*, No. 6, May 1976.

10 See Bispham, J.A., "The New Cambridge and Monetariat" criticisms of "Conventional" Economic Policy Making', *National Institute Economic Review*, No. 74, Nov. 1975.

11 See Johnson, H.G. "The Monetary Approach to the Balance of Payments: A Non-technical Guide", *Journal of International and Economics*, (No. 7 August 1977).

assumptions), implying that any increase in income will increase the demand for money and thus create an excess demand in the money market and yield an improvement in the balance of payments[12]. The second proposition follows from the assumptions that there is no sterilization and no feedback from credit creation (policy variable) to income, price, rate of interest and thus the demand for money[13]. Thus to reduce inflationary pressures, there must be monetary stabilization. Since increases in the money supply are linked to credit expansion, there is again a reason to make a credit crunch a center piece of the conventional stabilization program.

As to the exchange rate stabilization, the aspect of exchange rate depreciation is introduced to set directly on the variables of the trade balance (X-M), namely exports and imports. It is postulated that devaluation of the domestic currency would lead to two responses that would both move in the direction of improving the trade balance. Firstly, devaluation would reduce import since the imports would, in local currencies, become more expensive. As per the classical demand schedule, the rise in domestic prices would result in a fall in the quantity of imports demanded. Secondly, devaluation would increase exports since export products would, in local currency, have a higher price. Again as per the classical supply schedule, the rise in prices of export products would result in a rise in the quantity of exports produced.

These three stabilization policies are supposed to be implemented "in tanden" simultaneously. This is because reduced fiscal deficits will have a recessionary effect and monetary deceleration might reduce economic activity rather than prices. But, the exchange rate depreciation will offset these trends through its stimulative effects of domestic export sector. Secondly, the depreciation of the exchange rate can have an effect of induced inflation (through the shift of resources between tradeables and non-tradeables). If the monetary stabilization component is not simultaneously followed, then devaluations could turn out to be inflationary[14].

***Evaluation of Orthodox Adjustment Policies***

Some of the above key tenets of SAPs policies are, on theoretical and empirical grounds inadequate or applied without sufficient consultation and

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12 See M. Mussa, "A Monetary Approach to Balance of Payments Analysis", *Journal of Money, Credit and Banking*, vol. 6 (August 1974), pp. 333-351.

13 See Komiya, R., "Economic Growth and the Balance of Payments: A Monetary Approach", *Journal of Political Economy*, vol. 77, No. 4, January-February 1969.

14 See UNECA, "Multiple Exchange Rate Policies", E/ECA/CM.16/8, Tripoli, May 1990, which showed that African countries that have devaluated had a higher inflation rate averaging around from 20.8% to a maximum of 113.9%, whereas those that did not devalue had fairly stable price levels with moderate rates of inflation ranging from a minimum 4.3% to a maximum of 9.7% per year.

flexibility when addressing the real causes of economic, financial and social problems facing African countries. In pursuing a narrow range of policy objectives focusing on short-term balancing of finances at the expense of long-term development and social progress too much weight is put on currency devaluation, budgetary cutting, credit limitations and higher interest rates. But it is well known that:

***Exchange rates policies*** - which invariably involve substantial devaluations - do not take proper account of the fact that most African economies depend on primary product exports subject to quotas and sold at prices externally determined. Devaluation does not affect foreign demand elasticities nor prices for exports. The depreciation of the exchange rate can have an effect of induced inflation, through the shift of resources between tradeables and non-tradeables. If the monetary stabilization component is not simultaneously followed these devaluation could turn out to be inflationary. Devaluations, therefore, must be implemented with greater sensitivity because too rapid or successive devaluations can lead to sharply higher inflation rates, the diversion of foreign exchange to speculative activities and the structural entrenchment of traditional exports through price incentives for such commodities or tradeables.

***Interest rate increases*** may raise savings levels, but imperfections of the African capital and money markets encourage speculative rather than productive activities. In rural areas, where banks are hard to find, high interest rates are irrelevant to increased savings and tend to fuel inflation. Financial liberalization through increasing interest rates on deposits is stagflationary unless portfolio switches take place; e.g. from rentiers holding inflation hedge assets (consumer durables and nondurables, hoarded money, housing, inventory stocks, etc.) towards productive loans to firms or enterprises (financial assets).

***Trade liberalization policies*** are not feasible in view of the protectionist practices of industrialized countries, and also because of the adverse effects of foreign competition on infant industries in Africa. There is need for greater pragmatism, away from excessive ideological concern for trade liberalization and privatization. To argue that the most vulnerable and most fragile economies in the world should be liberalized while the rich economies are protected sounds a bit odd. Trade liberalization is based on false assumption both about competition in African markets and access to industrialized markets. Total imports liberalization would threaten national priorities such as food production self-sufficiency and the survival of infant industries and so lead to greater and more entrenched external dependence.

***Privatization in Africa*** is based on the "incorrect" assumption that the indigenous private sector is strong enough to take over crucial areas of the economy. Poor performance of public enterprises in Africa has led to wholesale and doctrinaire privatization being proposed in many structural

adjustment programs but the presumptive institutional superiority of private over public enterprises has no theoretical foundations. Indeed since the indigenous private sector is often not strong enough to take over, privatization could lead to take over by transnational corporations. The Africa's private sector is too small and weak for the free play of the market forces. The state intervention would have to remain in some areas in which the private sector is weak, though more sensitive, less inefficient and more motivated. At the similar stage of the economic development (16th-18th centuries), European countries had practiced the "Mercantilism" under which were established the great state factories in France and Germany (Gobelins, Meissen), the great trading companies like the East Indies Companies of France, Holland and Britain and the Central Banks. From them have evolved, slowly but surely, the sophisticated private machineries of finance and production that mark the developed world today. Thus at the initial stage of development, state interventionism is justifiable to provide an enabling environment for the private sector.

***Tight credit policies*** usually lead to contraction in output; a sustained policy of tight credit would lead to reduction the existing capital stock due to the inability to replace it and can bring on inflation even though it can succeed in improving the governments current account. A movement to free tight credit policies can prevent producers responding to investment opportunities. Speculative rather than productive activities will be encouraged.

***Pricing policies*** are based on the false assumption that markets in Africa are always competitive. The market imperfections and rigidities of the African economies do not allow for mobility of resources by which the benefits of allocation through supply and demand prices can take effect. Calling for the total replacement of the government with markets which hardly function is unjustifiable, since it is only as and when the necessary productive capacity is built that market forces would become competitive and progressively play an increasing role as an engine of growth and development.

***Across the board cuts in budget deficits*** can have a deflationary effect and leads to catastrophe losses in crucial services like education, health, sanitation and water supply. The African economies are too weak to respond to this orthodox method. Drastic cuts in public spending may lead to debilitating health problems and greater illiteracy. No country can sustain deficit indefinitely. All deficits are not bad, particularly those aimed at financing investment (human and physical) which will increase the country's productive capacity. Without a healthy and educated work force no economy will thrive. Rather than increasing the level of resources for productive use the prescribed reform measures result in less investment in people and infrastructure so retarding rather than promoting structural transformation.

***Evidence of the Effect of SAPs***

As it was shown earlier, the World Bank's own data on the effect of SAPs for major macro-economic indicators, showed that the combined GDP of the countries with strong SAPs actually decreased by 1.5% during the period 1980-1987, whereas those with weak or without structural adjustment programs achieved combined annual average growth rates of 1.2% and 3.1%, respectively. It needs to be pointed out that within each group of countries there were positive and negative growth rates. Conditions unique to each country and factors such as weather, commodity prices and debt affected individual growth rates. Even so, GDP statistics clearly undercut the World Bank's assertion that countries following orthodox SAPs have fared better than those that do not, if anything, they argue the contrary.

If the World Bank and the IMF imposed austerity regimens, sometimes described as "shock treatment" programs, were balanced by an improvement in the ability of African countries to progress economically and socially, they might be worth the hardships endured. But a strategically improved position has not materialized. Declining per capita income and real wages and rising unemployment and underemployment are choking the growth of domestic markets for African products. The population is less, no better, to compete in the world economy of the 1990s. Governments hamstrung by the imperative of cutting budgets are not putting in new infrastructure or advancing the level of technology, and private business is not strong enough to take advantage of liberalized markets and prices while hemmed in by inadequate infrastructure, overseas competition and protectionist policies of the developed countries. In several instances, taking away subsidies on the price of basic food items has led to street riots and undermined political stability.

The orthodox financial models were tested on the yearly IMF data for seven East African countries (Ethiopia, Kenya, Malawi, Sudan, Tanzania, Uganda and Zambia) for the period varying between 1960 and 1988. The empirical results are given in tables 1-6 in Appendices.

Using the single-equation estimation of the "monetary equation" (2.15) and the "fiscal equation", (2.12) the results given in tables 1 and 2 show that: (i) the coefficients of the home country income are positive in the two cases (Ethiopia and Zambia) and negative in five remaining cases. Only three countries (Kenya, Sudan, Tanzania) have income coefficients which are significant at the 5% level. These country results invalidate the "monetary approach" that an increase in income will lead to an improvement in the overall balance of payments. (See table 1); (ii) the findings in table seem also to invalidate the Keynesian view that an increase in income deteriorates the balance of trade, at least for Sudan, Tanzania and Zambia where the coefficients of income are significant at the 5% level but with positive sign except for Uganda. In the remaining countries, the income

coefficients are insignificant; (iii) the price variable seems to significantly affect the net international reserves in Ethiopia and Tanzania and the current account balance of payments in Kenya and Tanzania. In the remaining countries price does not have an expected significant impact on the dependent variable of the monetary and fiscal equations; (iv) domestic credit creation either to the private sector or to the government has a significant negative impact on the overall balance of payments, only in Kenya, although its coefficients is far different from -1. (Table 1). In Zambia, domestic credit creation to the private sector is significant but with positive sign and domestic credit creation to the government is significant in Ethiopia, Malawi, Tanzania but with a wrong sign. Domestic credit creation to the private sector has a negative impact on the current account (Table 2) in Ethiopia, Malawi, Sudan and Zambia (at the 5% level) and Tanzania (at the 10% level), suggesting that an increase of credit to the private sector will lead to an increase in the private demand for imported goods and a decrease in exports through the impact of deficits and trade deficits is not similar for all the countries in the sample. In Sudan, the results seem to support the "fiscal hypothesis" that an increase in budget deficit will result in a deterioration in the current account of the balance of payments. In Ethiopia, Malawi and Tanzania, the significantly positive relationship between government budget deficits and the current account suggests that both trade balance and government budget deficits are adjusting to the excess demand in the private sector. In three remaining countries, the relationship is insignificant. Thus, it seems that the "fiscal hypothesis" does not hold for all the developing countries in the sample.

The use of 2 SLS estimation does not seem to affect very much the results (see table 3 and 5). However, from table 4 and 6, which give the estimation results of monetary and fiscal policy reaction functions two remarks can be made. (i) Most of the countries in the sample, with the possible exception of Sudan, are not successful in "sterilizing" the effects of changes in net international reserves on the money supply (see table 4). This finding supports to some extent the endogenicity of the money supply postulate in developing countries and the argument that it is a credit and not money which should be the policy variable. (ii) From table 6, the results do seem to favour the argument that there is a two-way causability between budget deficits and the trade balance, but with a positive sign in Kenya, Malawi, Tanzania, Uganda and Zambia suggesting that not only changes in the budget deficits can lead to changes in the current account but also that the budget deficit is itself affected by the balance of payments.

The above estimation exercise includes the period 1980-1988 during which most structural adjustment programs were implemented, using both OLS and 2SLS methods. The results obtained although in most cases statistically insignificant point to the same conclusion that the basic policy

issue in the east African countries should not be whether to follow fiscal or monetary "rules" but rather in how to co-ordinate credit and budget policies in the most efficient way and to ensure at least, that these policies are not in conflict with each other and incompatible with growth and development.

The track record of orthodox adjustment programs in the 1980s is however producing frustration on all sides - on the part of the Fund and the Bank and the countries involved. Recovery measures that were supposed to take hold in three years or so are now stretching out for a decade or more, with no resolution in sight. Rethinking what needs to be done has led to the drafting of an alternative framework for achieving economic recovery while transforming the underlying conditions of underdevelopment in Africa.

**The Design of African Alternative Framework (AAF-SAP)**

The African Alternative Framework for Recovery and Transformation (AAF-SAP) takes into account the pressing problems of debt and trade and the underlying structural weaknesses of the African economies. It is geared to human-centered development and the broad objectives endorsed by a consensus of African leaders in Monrovia and Lagos and reaffirmed in the 1986-1990 economic action programs[15].

The structural adjustment programs (SAPs) installed by the World Bank and the IMF in the late 1970s and the 1980s in effect told African countries to put their financial hoses in order before resuming campaigns of economic and social development. The African Framework (AAF-SAP) takes a different tack. It calls for transforming economic and social structures at the same time as consistent, long-term progress is made in reducing debt and inflation. AAF-SAP demands that both recovery and development should be pursued concurrently. It understands that if financial imbalances are corrected, but underlying structural weaknesses are not, external debt and internal deficits will reappear somewhere down the road. If conventional adjustment programs weaken economic and social structures, then adjustment means losing ground rather than gaining; it becomes adjustment to indefinitely prolonged underdevelopment and human misery. Insisting on financial balances or stabilization before growth and development is self-defeating.

It needs to be said that there are areas of agreement between the AAF-SAP and conventional structural adjustment programs. A consensus exists on the need for improved financial management and efficiency of public enterprises, along with tighter financial accountability of

15 See OAU, *African Priority Program for Economic Recovery* (APPER), 1985 and UN, *United Nations Program of Action for Africa's Economic Recovery and Development* (UN-PAAERD); May 1986.

governments; slowing down inflation; improved agricultural incentives for farmers to grow crops; diversified exports, mainly in processed agricultural products; and better management of external debt. The World Bank started designing program "with a human face" and to promote a new category of loan, designed to look after the social dimensions of adjustment. The IMF's "enhanced structural adjustment facility" allows borrowers more investment leeway by conceding easier terms of repayment. These are important and necessary objectives.

The areas of disagreement stem largely from different outlooks on the economic environment. Free-market economies extolled by conventional wisdom do not necessarily transplant easily to countries where supply and demand are bottlenecked by lopsided development and missing factors of production. Further, there is no justification for arbitrary ceilings on the participation of the State in the economy - the governments of many of the developed countries control a larger share of economic activity than African governments.

Other differences of opinion; it is hard to see how across-the-board trade liberalization will succeed while overseas trading partners maintain protectionist policies. In any event, stimulation of exports through fiscal incentives is self-defeating if a narrow range of the same commodities being produced in Africa and other regions lead to a glut on the world market and a consequent drop in prices. Export incentives need to be deliberately selective, recognizing the opportunities and difficulties for each African commodity in breaking into the world market or increasing its share. Pricing and resource allocation in such areas cannot be left entirely to the market; some state intervention is called for. Manipulation of a few fiscal levers will not transform African underdevelopment and has not forwarded recovery. Integrated action on a broad social, political and economic front is called for.

The proposal of the AAF-SAP has two inter-related parts; namely the framework that should form the basis for the design, implementation and monitoring of adjustment programs, and the alternative policy directions, instruments and measures that should constitute the ore of policy makers for the different African countries. The framework focuses on five strategic issues, namely:

- A more vigorous pursuit of human-centered self-sustaining development strategy and process;
- Greater encouragement of production activities, that is the transformation of Africa from a primarily exchange economy to a production economy;
- Greater democratization of the development process and greater accountability by policy makers and public officials;

- Effective mobilization of social and economic institutions for the task of adjustment and transformation;
- Renewed effort to accelerate the process of economic cooperation and integration.

Thus, all adjustment programs must address a number of questions relating basically to the desirable norms of adjustment, the structures that the African economies should adjust to and the indicators and criteria that should be used for effective monitoring such program with a view to ensuring their conformity with transformation. It is of view that the basic norm of adjustment is that of national and collective self-reliance with the concomitant reduction in external dependence. The basic structures to adjust are the real and material structures and relations of production, consumption, technology as well as social and political structures and institutions that are inhibitive of the pursuit of transformation and are disruptive of or do not consistently follow the path of national and collective self-reliance.

***The Theoretical Framework of AAF-SAP***

Unlike orthodox SAPs which are based on the classical theoretical wisdom, the African alternative framework does not provide a theoretical model or formulae that could be applied across the board to all African countries, in view of the diversity in the characteristics and performance of their economy. The modelling exercise is to be carried out on the empirical grounds for each individual African country on the basis of its particular socio-economic and cultural peculiarities and realities. In other words, the alternative is not a standard program to be applied indiscriminately in all countries under all circumstances. On the contrary, depending on the peculiar characteristics of each individual country, AAF-SAP will be used for designing specific instruments and measures and adopting the relevant implementation strategy. The AAF-SAP has, however, adopted a more holistic, comprehensive approach (general equilibrium) rather than the ad hoc partial approach (partial equilibrium) of the conventional stabilization and adjustment programs with limited objectives. The dichotomy between structural adjustment and long-term development is eliminated. Such an approach is expressed in terms of three modules or arenas of socio-economic activity that capture the relationship between the processes of production, income distribution and the satisfaction of the needs. (That is, a three dimensional approach adjusting supply to demand with human face, particularly the satisfaction of population's basic needs rather than a two dimensional approach adjusting demand to supply without human face as in orthodox SAPs).

Module I: Level and Structure of Production Expressed as Follows:

$$Y = f(F_1, R) \qquad (3.1)$$

where Y represents total output by category of goods and services. These categories could include sectorial classification such as agriculture, mining,

industry, services. Disaggregation of these categories could also be made such as food and non-food for the agriculture sector, consumer manufactured goods, intermediate, and capital goods for industry, etc.; $F_1$ is a set of parameters representing the relative effects of the different forces on the pattern and level of output. Such parameters may relate for example to technology, weather conditions, research and organizational infrastructure; R represents the set of available resources to be applied in the production of the different categories of output. These could include human resources, natural resources, land, water resources domestic capital formation (domestic savings) and external capital formation (external financial resources).

In other words, this is the usual production function that can tap the inherent potentials for the benefit of the internal economy rather than the export-production oriented economy devised in the orthodox SAPs. The AAF-SAP stresses the urgent need for shifting from primary production aimed at export markets that entail diminishing returns to producing more for domestic and regional markets. Compared with the SAP equations (2.7) and (2.10) of the equilibrium in the commodity market, the AAF-SAP would reverse the dependent variable as follows:

$$(I-S) = -(G-T) - (X-M) \qquad (3.2)$$

It is to recall that the previous model followed the new Cambridge School's assumption that (I-S) is fairly stable and small and can be eliminated from the equation. AAF-SAP rejects this assumption as being unrealistic in the case of developing African countries. The lack of increased production and structural transformation are the root causes of the financial imbalances, be it internal (G-T) or external (X-M) and not necessarily the other way around.

The first step to increase production is to increase the processing of farming and mining commodities that Africa already produces in raw form. This will put a higher percentage of the value of finished commodities in African hands and make for wider range of goods to market on the continent and overseas. To break away from dependence on overseas markets and worldwide financial conditions, Africa must produce a larger portion of the basic goods needed by its own population. Farming operations and key industries should receive preferential treatment in obtaining capital - easier terms for loans and lower interest rates. Land reform will increase food production and make for better use of Africa's human resources.

A strategy for building a scientific base from which to transform raw materials needs to be incorporated in national planning. Research projects that might be too expensive for any one country can be mounted by multinational efforts that pool resources. Another way to create a modern technological capacity when starting virtually from scratch is to bring scientific research into the production facilities. A key field at the moment is bio-technology, a rapidly evolving science that threatens to substitute

laboratory-finished products for Africa's raw commodities, but could be turned to advantage if applied by African countries.

To free up resources for investment, financial leakages like debt payments and flight capital need to be plugged up. Available resources in Africa will be more efficiently used if countries integrate production structures and markets. Through regional and sub-regional planning, African governments can avoid costly duplication of efforts in existing industrial capacity and begin to create new industries.

Budget cutbacks accomplished at the expense of social services are counter-productive. Health and education are needed for a productive environment and productivity. Less obvious, but also important, is an adequate social infrastructure. Without a well run criminal justice system, for instance, the morale of the population sags, corruption flourishes and individual energies go into criminal rather than productive ventures. Above all, cutting back on productive capacity for the single purpose of balancing budgets must be resisted. If resources can be allocated efficiently and used productively, reduced government input brings savings only on paper and only in the short-term.

Module II: Income Distribution expressed as follows:

$$I = f(F_2, Y) \qquad (3.3)$$

where I represents incomes of various institutional groups such as households, enterprises and government; $F_2$ represents a set of parameters related to the effects of different forces on the pattern and level of income distribution (such parameters may relate for example to rural-urban terms of trade, the pattern of land ownership, labour structure, etc.) Y as defined in Module I.

This module defines income distribution functions in which relevant parameters operate on the generated output to determine the income of various institutions. More equitable distribution of income strengthens domestic markets for domestic products and alleviate poverty. An essential condition is better access of the poor and disadvantaged to the means of production, especially land, labour and capital.

A political environment that encourages sustained development and a fair distribution of wealth is characterized by popular participation in decision-making, consensus building, equity and justice, freedom from civil strife, open opportunities for all, accountability of government officials and a favourable investment climate. Cuts in non-essential government expenditure, especially military spending, will allow for more investment in productive activities. In the mid-1980s, developing Africa spent less on education than on the military, in contrast to Latin America, where the education budget is twice that of defence. Average public expenditure on health in Africa amounted to less than a third of what was spent on the military. Deep cuts in military spending are called for except in situations

where unabated external aggression and destabilisation threaten a nation's well-being.

Module III: The satisfaction of the population's needs expressed as:

$$N = f(F_3, I, E) \qquad (3.4)$$

where N represents individual and collective needs (vital goods and services such as food, social services, basic infrastructures); $F_3$ represents the indices of forces that are relevant in the determination of the different needs for example consumption patterns, degree of poverty, and the structure of production determining the needed intermediate inputs, etc.; I, as defined before in Module II, and E represent the gaps between production and needs thus concomitantly defining all variables relating to transactions with the rest of the world such as exports, imports. This Module generates expenditure functions for the satisfaction of essential needs, given the pattern of domestic production and the pattern and level of income. The relevant parameters operate on the level of income of various institutional groups to determine the types and degree of satisfaction of the needs of the population with external transactions, including exports and imports, foreign loans and debt payments, aid and resource flows.

Current policies often aim single-mindedly at boosting production of export food and cash commodities. In effect, farming for local consumption is discriminated against. At better balance needs to be found between the production of food and cash crops for local markets and for export. Capital goods for the reaction of industry, intermediate inputs like fuel and spare parts and a large amount of the goods basic to meeting human needs are imported from overseas. Greater self-sufficiency in all these areas is called for. Incentives should favour local production for local needs, encourage exports and discourage non-essential imports. Consumption habits should be re-oriented to food, clothing, household items and other necessities that are or can be produced locally. Another step is increasing trade between African countries.

The persistence of external debt places a ceiling on African development and satisfaction of the basic needs of the population. Strong debt management, involving on-going assessment of payment capacity in the short- and long-term, is necessary to minimize the constraints of debt payments. When new loans are taken out, they should be for projects with quick and high rates of return and foreign exchange benefits.

Policies for activating progress within the three models are presented in the next sub-section. But first it should be made clear that there is a dynamic interchange between the three arenas. What happens in one module has an effect on developments in the others. Second, policies developed within the three modules will have to be monitored and adjusted as they unfold. The nature of the operative forces, the resources available to Africans and the needs of the people are historical phenomena; that is to say, they change

over the course of time. As they do, the mix of policy mechanisms will also need to change. Thirdly, the African Alternative Framework is just what its name implies: a framework for policy measures, not a blueprint. It is a broad guide to action sufficiently flexible to be adapted to the unique conditions and priorities of individual African nations. In other words, the alternative strategy has left it to each country to design its own policy package within the overall framework that governments can use to design their own individual adjustment programs so that economies can be transformed[16]. This is the path of "adjustment with transformation".

### *Policy Directions and Instruments of AAF-SAP*

*Policy Directions*

In respect of the policy directions, the AAF-SAP presents a menu of options for African governments with policies which emphases different directions from the existing SAPs. Although the AAF-SAP proposals focus also on the need for improved financial management and efficiency with higher financial accountability, improved agricultural incentives, export diversification and improved external debt management, there are, within this overall focus, the following basic elements:

Module I

- Ensuring policy continuity and compatibility between adjustment and transformation;
- Strengthening of the productive environment with increased productivity and judicious use of resources;
- Full resource mobilization, including the elimination of all forms of leakages and wastages;
- Strengthening scientific and technological base;
- Vertical and horizontal diversification of the production to meet first the local and regional demand and then for export markets.

Module II

- Establishing a pragmatic balance between the public and private sectors;
- Creation of an enabling environment for sustainable development;
- Restraint on expenditures on defence and on non-productive activities so as to release resources for the social and productive sectors;

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16 In fact some African governments, like for example Burkina Faso, are trying to ensure that the new SAPs with the IMF/World Bank incorporated some of the policy instrument advocated in AAF-SAP before signing the stand-by agreement. Burkina Faso has included the ECA staff in the national team of experts who were sent to Washington D.C. to negotiate and hammer out SAPs with the Bretton Wood Institutions last June 1990.

- A bringing about of improvements in the pattern of income distribution among different socio-economic categories of households.

Module III

- Achievement of food self-sufficiency
- A lessening of import dependency
- Realignment of consumption patterns with production patterns; and
- Better management of debt and debt-servicing obligations.

From these proposed policy directions emerged the required policy instruments and measures which focus on increasing production for the satisfaction of critical needs. This is essential because the major problems of the African economy are rooted on the lack of production and the low productivity.

*Policy Instruments*

Module I

The following are the policy instruments recommended under Module I:

- land reform to encourage production and alleviate poverty;
- assistance to women (through more access to land, credit and technology) as agents of change and modernization;
- putting 20 - 25% or more of total public investment into agriculture; establishing bank branches and financial institutions in rural areas;
- a larger share of foreign exchange earnings assigned to import i.e productive inputs vital to manufacturing and agriculture;
- fostering links between farming and industry (using crop by-products as manufacturing production inputs, for example, or wastes from commodity processing as fertilizers);
- national credit guidelines that favour food production and manufacture of essential goods; investment codes tailored to promote small-scale, easily mounted industries;
- access to credit and legal enfranchisement of informal enterprises;
- selective interest rates: higher for speculative purposes and lower for productive ventures;
- setting aside a special fund for loans at subsidized interest rates to enterprises of strategic value to the national economy;
- bilateral and multilateral agreements between countries to rationalize production and assign areas of specialization;
- use existing multiple exchange rates (differences between official and black market currency values) or create tiers of official and black market currency values) or create tiers of official exchange rates and through selective application stem capital flight, ensure remittances from workers living abroad;

- rehabilitation and repair of national infrastructure and productive facilities;
- promotion of a technologically focused educational system;
- assigning personnel to find commercial applications for academic research; and,
- measures to protect the environment and ensure sustained productivity of the land.

Module II

The following are the recommended policy instruments under module II:

- cutting military spending and government spending on non-productive public sector activities; slashing subsidies other than those that help the social sector and strategic basic industries;
- widening the tax base and improving the machinery of tax collection; limited, realistic and progressively decreasing deficit financing of investments in production and infrastructure that do not depend heavily on imports; and,
- guaranteed minimum prices for food crops, managed through strategic food reserves.

Module III

The following are the policy instruments recommended under module III:

- re-allocation of government spending (without necessarily increasing total outlay) so that an average of 30% of the budget is applied to the social sector; after that is achieved, increases in social investment at a rate that outstrips population growth;
- selective pricing policies and subsidies to increase the supply of essential goods and services;
- pricing incentives and subsidies for processed export items and carefully selected primary commodities;
- trade policies that discourage non-essential imports and ban certain luxury items;
- high taxes on conspicuous consumption and on imported production inputs that can be produced domestically;
- a campaign of mass education in favour of consumption of domestic goods;
- strengthening intra-African monetary and fiscal co-operation, making it easier to exchange goods and currencies between countries;
- removal of trade barriers between African states and encouragement of barter trade;
- bilateral and multilateral agreements to stabilize prices of primary commodities; and,
- limiting debt payments to levels consistent with sustaining and accelerating growth.

It is not realistic, and possibly not even desirable, to expect all the policy instruments recommended in AAF-SAP to be implemented in every country. The particularities of individual countries and the changing course of the development process will call for choices as to which mechanisms to use and when to use them. It is hoped, however, that national policy packages will draw on policy instruments from all three categories - production, distribution and satisfaction of needs. The responsibility for recovery and transformation properly lies with the countries of Africa, individually and collectively. But support of international financial institutions will be needed for the program to succeed. The entire world has a stake in Africa's economic resurgence: continent-wide stagnation has a negative impact on international finances and economic growth, while progress toward African prosperity will contribute to a balanced world economy.

*Comparisons with SAPs Policy Instruments*

In implementing programs, the African alternative cautions governments to eliminate the anomalies on the IMF/World Bank policy instruments which were criticized earlier in this paper. Instead the AAF-SAP proposes:

*Selective Credit Policy*

Across-the-board credit squeeze advised by SAPs may lead to overall contraction of the economy, declines in capacity utilization and closure of enterprises and a shortage of critical goods and services. Instead, the AAF-SAP proposes a selective credit policy through subsidies, pricing policies, etc., that would increase the supply of essential commodities required for maintaining a socially-stable atmosphere for development such as critical intermediate inputs, industrial raw materials, while controlling inflation. This would entail sectorial allocation of credit using credit guidelines that would favour the food subsector and the manufacture of essential goods and increased gainful employment.

*Differential Interest Rate Policy*

Instead of unsustainably high real interest rates, the AAF-SAP advises the use of the differential interest rates in such a way that interest rates on loans for speculative activities would be greater than the rates on loans for productive activities and that the resulting weighted real interest rates (nominal interest rate adjusted with the rate of inflation) should be kept positive so as to encourage the increased mobilization of domestic savings while shifting resources from speculative to productive activities[17]. This would entail the creation and strengthening of rural financial institutions

17 See UNECA, *Differential Interest Rate and Selective Credit Control Policy*, E/ECA/CM.16/9.

(financial deepening)[18] and creation of a special fund for loans at subsidized interest rates to certain groups of economic operators. Government-set interest rates that favour selected sectors of the economy can be used for example, to increase exports and reduce imports and thereby improve the balance of payments of the country at the same time increase the country's productive capacity. This will also lead to increased food production in turn bolstering economic self-sufficiency and the physical and social well-being of the people. Such policies require careful planning and monitoring, as well as strong measures to prevent manipulation for illicit individual gain.

*De Facto Multiple Exchange Rate Policy*

Instead of generalized devaluation through open foreign exchange markets, currency auctions and large and frequent currency depreciation recommended in SAPs, the AAF-SAP proposes the use of the multiple exchange rate systems in a rationalized manner and/or creating and streamlining such a system for purposes of resource transfers, especially by nationals working abroad, resource mobilization and discouragement of capital flight and ensuring availability of essential imports[19]. Careful and sophisticated use of multiple exchange rates should ease the balance-of-payments crunch while adding to funds available for productive investment.

Production is stimulated by assigning favourable rates of exchange to products of strategic importance to the world market or to intra-African trade. Multiple exchange rate policy can also be designed to encourage workers employed abroad to send portions of their earnings home. Unfavourable rates can be used to hold back flight capital and discourage speculative overseas investments. The capital that stays at home becomes available for local enterprises.

*Selective Use of Trade Policy*

Instead of total import liberalization, the AAF-SAP recommends the selective use of trade policy which include *inter alia*, banning for the import of certain specified luxury goods, high tax rates on conspicuous consumption and competitive factor inputs that have domestic substitutes, and mass education towards consumption of domestic goods. This would change consumption and production patterns and enlarge the markets for domestic goods. This would entail also the strengthening of intra-African trade, monetary and financial cooperation as well as payments and clearing

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18 See McKinnon R.I., *Money and Capital in Development* (Washington, D.C., Brookings Institutions 1973); Shaw, E., Financial Deepening in Economic Development (New York: Oxford University Press, 1973).

19 See UNECA, *Multiple Exchange Rate Policy*, E/ECA/CM.16/8.

arrangements. In the past, the predominantly exchange nature of African economies and their openness have perpetuated Africa's external dependence. A few commodities have accounted for 80% of export earnings and government revenue. However, the AAF-SAP implores governments not to allow certain negative implications of the openness of African economies to lead to autarky, as no economy in the present world order can survive in isolation.

*A Pragmatic Balance between the State's and Private Sector's Role in the Economy*

Instead of doctrinaire privatization, the AAF-SAP proposes a pragmatic balance between the public sector and the private sector. In some areas, particularly non-social service and non-strategic sectors, African governments are over-extended. Selective privatization of state enterprises is a viable option in these cases. The state, however, bears a direct responsibility for building physical, social and human infrastructure, protecting the environment and providing services essential to minimal standards of human well-being. If limited profitability or underdevelopment of local business precludes the private sector from fulfilling these functions, the state has to make sure that the job gets done. Indeed, because of this, privatization in Africa has led to the takeover of public enterprises by transnational corporations, thereby deepening further the countries' external dependence. In the majority of case, the indigenous private sector does not have funds and skills to buy and run the inefficient public enterprises offered in the market to be sold. Where present, foreign transnationals with huge financial resources and entrepreneurial skills were the only ones in the market to buy them. The costs of handling transnationals in the country (including income, profit, dividend remittances to abroad in the needed foreign currencies) are often greater than the benefits that the country derives from them and often the training component of the nationals to take over is very insignificant.

*Selective Subsidies and Pricing Policy*

Instead of excessive reliance on the market forces for getting the "prices right" in structurally distorted and imperfect market situations, the AAF-SAP proposes the use of the flexible pricing policy where the State can guarantee a minimum price for food crops managed through strategic food reserves, selective subsidies and price policies to increase the affordability of essential goods and services as well as critical intermediate inputs and increased production of industrial raw materials. In other words, the state could intervene to eliminate the price distortions due to the market imperfections. For instance, the indiscriminate promotion of traditional exports through price incentives offered only to the "tradeables" (as devised by IMF/World Bank) can undermine food production and self-sufficiency and result in over-supply and fall in prices (fallacy of composition). There is a need for

selective government interventions in the countries experiencing structurally-induced shortages and skewed income distribution.

*Government Expenditure-switching*

Instead of across-the-board cuts in the budget deficits, the AAF-SAP recommends expenditure-switching without necessarily increasing total government spending in order to raise governments spending on the social sectors (such as education, health, water supply, integration of the women i the development that are likely to increase productivity) to average around 30% of the total annual government budget, in the meanwhile reduction of government expenditure on defence and non-productive public sector activities, removal of subsidies to parastatals other than those in the social and productive sectors and nationally strategic basic industries and enlarging the tax base through improving efficiency and probity of the tax collection machinery in order to finance the public outlays in those sectors. When the funds is still not enough to finance productive and infrastructural public investments, the AAF-SAP recommends the use of limited realistic and decreasing deficit financing (through monetary creation) of these have little import content. The public productive investments can also be financed through the limitation of debt service ratios to levels consistent with sustaining and accelerating growth and development.

***Institutional Constraints***

There are two types of institutional constraints which must be removed as a necessary precondition to increased production and productivity of resources (land, labour and capital) as well as to the implementation of basic needs policies. On the one hand, there is a need for fundamental reforms in the social and economic institutions where nothing exists(e.g. appropriate rural capital markets; food production credit systems for farmers; agricultural extension services to spread modern farming techniques and provide technical support to farmers; rural institutions to support cottage industries and informal enterprises, emphasizing indigenous technologies, domestic finance, rural infrastructure and the full participation of women in the economy; legislation that clearly, states property rights and enfranchises participation in the economy of artisans, merchants and co-operatives in rural areas in the informal sector in cities; and community development organizations and self-help programs).

On the other hand, there is a need to streamline the institutional framework for decision-making in the public sector and to promote managerial efficiency.

The decsion-making process needs improvement at all levels to institutionalize the planning function in general and structural transformation policy in particular and to promote increased managerial efficiency. The most important action in this respect is the establishment of an effective

Central Planning Agency (CPA) at the highest level of government, for probably in the form of a planning commission. This CPA must then supervise the deepening of the planning process at the ministry level, in key public enterprises and the local levels. These main strategies here embrace the strengthening of the institutional capabilities, the introduction and use of proper methods and procedures of planning and management, and the enforcement of social responsibility and public accountability, including the decentralization process.

***Institutional reforms***

A people-oriented structural transformation strategy required institutional reforms to remove the numerous constraints facing the producers and workers in their struggles for self-improvement, to increase access to resources by all social groups especially the disadvantaged, to increase the efficiency and effectiveness of government programs, and to improve decision-making on all social sectors of production. The government and national planners beer the greatest responsibility for initiating and rationalizing these reforms, although people's political pressure will play a significant catalyst role. Indeed, such pressures should be encouraged as part and parcel of the democratization process.

In the rural sector, these may need an agrarian reform, a reform of the existing cooperative movement towards production rather than marketing and to institutionalize efficient management and accountability, an appropriate financial system for rural transformation, and a coherent system of decentralized rural development planning. In the social sector, the need for fundamental reforms in education, health, and urbanization policies cannot be over-emphasized given the human development orientation. Industrialization requires an institutionalized appropriate technology policy, a responsive financial system, and a framework for responsible worker's participation in determining their working conditions. Lastly but least, mixed-economy reforms may be required to achieve the best balance among public-sector and private sector enterprises as well as collective community enterprises and programs. All these reforms must be consistent with the need to promote people's participation in decision-making and development programs as well as a deepening of the democratic process at all levels of society.

***Enabling Environment***

At independence, the African states inherited some legacies which have been incompatible with rapid sustained economic development. These have included:

(i) independent constitutions that tried to accommodate at best as they could ethno-cultural development, linguistic, religions and political differences, but at the same time were meant to facilitate the building of a nation-state

out of a conglomerate of peoples arbitrarily and involuntarily brought together;

(ii) public services with structures, processes and procedures, conditions of services, tradition and attitudes that were not primarily designed to serve the aspirations and goals of the newly independent states; and

(iii) staggering socio-economic underdevelopment, and extremely weak indigenous private sectors in their economics. These legacies have had and still continue to have direct and severe effects on the public services in independent Africa.

In the search for suitable constitutions, conflicts have arisen which, in some cases, have resulted into vicious civil wars, coups and counter coups, suspension of constitutions and strong communal antipathies. The consequent upheavals and instability have resulted in the detraction of the energies of nations from socio-economic development goals, stable styles of government, towards the achievement of which, suitable public services can be built. Many African countries have not yet finally decided what type of political and socio-economic goals they want to pursue so that the public services, as tools to achieving the decided goals, need to be moulded accordingly. The instability and the resultant insecurity have been devastating the morale, devotion and the *esprit de coups* of the services to dangerously low levels.

It is obvious that dissatisfaction with the current performance of African public services exists among politicians, the general public and the public servants themselves. As regards a better alternative, there are many alternatives or combinations of alternatives, the choice of a better alternative is a function of the political leaders. There is need to foster an environment favourable to reform facilitated by the right political, social and administrative climate which is derived from an awareness of the urgency for administrative reform. It is necessary to embark upon a program of education to explain the rational of administrative reforms to all responsible public officials. A high-level commission should be appointed from time to time by the government to undertake a comprehensive review of the public services, to identify major administrative deficiencies and to advise on the appropriate reform measures to be taken. Such an administrative reform should be integrated with the framework for socio-economic transformation and recovery and consistent with the overall development programs. Continuous political instability and excessive mobility and transfers of top-level public servants and ministers can hinder administrative reform efforts. It is important that considerations should be given to the creation of a permanent machinery comprising a network of implementing organs in the different sectors, departments and levels of government to ensure that administrative reform programs are being effectively and properly implemented, so as to sustain development.

Participation which is a fundamental socio-political issue, and which implies a redistribution of wealth and power among social classes can be devised as an alternative approach to enlisting the support of the masses and arousing their enthusiasm for development. This includes participation in the management of the production system, i.e. democratization of the production process, which raises the issue of centralization of economic, political and administrative powers.

***Implementation and Monitoring Mechanisms***

Putting into action the policies and mechanisms of the African alternative framework to structural adjustment programs for socio-economic recovery and transformation requires sound government, the active participation and understanding of the population at the national and subregional levels, support of the international community, and the ability to monitor and evaluate progress. As a human-centered framework AAF-SAP implies full democratization of all aspects of economic and social activities and in all stages from decision-making to implementation.

To adjust the ongoing selection of policy mechanisms and detect early warning of deviations from objectives, adjustment and development programs need to be closely monitored. National, subregional and regional data systems will have to be in place to assess the impact of new policies. Statistical indicators of economic growth and financial flows need to be studied, but so do qualitative factors: the extent to which basic needs are satisfied, political and social vitality, and progress in transforming production structures and consumption patterns. Regional institutions such as the ECA should take appropriate action in organizing data systems and standards for evaluation and in assisting countries with the design of national programs.

**Financing SAP vs AAF-SAP**

***SAPs Conditionalities***

Under the SAPs, many donor countries and financial institutions increasingly perceived structural adjustment as the key to Africa's problems and have made aid conditional on acceptance of such programs. There is concern about the capacity of Africa to sustain growth after aid flows have primed the pump. The 1980s have turned out to be a decade where everyone has been financing short-term balances and has forgotten long-term development. It is like chasing the shadow and leaving the substance behind. The cause of short-term imbalances are fundamental structural development rigidities and lack of development. Instead of addressing them, donor countries and financial institutions have put emphasis on short-term symptoms. Therefore, the donors countries should go back to their original role to help Africa finance its long-term developments and leave the IMF to finance short-term imbalances.

As a think-tank, the ECA lacks the resources of the IMF and World Bank to implement its alternative approach. But foreign aid will not flow plentifully enough to solve all Africa's problems. While the Bank/IMF suggest sensible but unpalatable solutions of finding the necessary money, like sacking civil servants, the ECA would have governments cut military spending, which is equally unworldly. If essential public investments still cannot be paid for, the ECA suggest that mild budget deficits can be tolerated.

At the political level, the finding of AAF-SAP showed that there is growing erosion of the sovereignty of African countries in the way stabilization programs are being designed and implemented. Countries seeking external resources are often subject to policy dictates of donor institutions and Africa has suffered and continue to suffer from such impositions because the weakness of its economies give it very little negotiating leverage. One asset of the encroachment on national sovereignty is in the one-sidedness of the negotiations of the programs between the countries concerned and the international financial institutions. Another is the overwhelming and dominant role of officials of these institutions in dictating conditionalities and in the design of adjustment programs as well as its implementation modalities. It is this loss of sovereignty that apparently accounts for the anomalous situation in which conventional stabilization programs in many African countries are being designed and implemented virtually independently of and at cross purposes to the objectives and principles of the Lagos Plan of Action, the Final Act of Lagos, the African Priority Program for Economic Recovery and the United Nations Program of Action for Africa's Economic Recovery and Development that were adopted at the highest level by the African Heads of State and Governments and the United Nations General Assembly. In none of these documents you will find reference made to the design and financing of shot-term SAPs. What has been advocated instead in each and every one of them are policy changes and policy reforms that will address the root and fundamental causes of Africa's continued economic backwardness and that will lead to the transformation of structures that keep the African economies underdeveloped and aggravated the economic crisis that has engulfed the continent since the beginning of the 1980s decade. The dichotomy between long-term development objectives and short-term adjustment programs as well as their financing is alien to these documents.

In SAPs most of the resource mobilization effort (special quick disbursing assistance, balance of payments support and debt relief necessary to reactivate economic growth and mitigate the social cost of economic restructuring) was handled by donor agencies with modest participation of African governments. As a matter of fact, structural adjustment financing and related debt relief programs have become an increasingly complex and

constantly changing technology and African governments play virtually no role in its design and adaptation. Although additional development assistance resources are being mobilized in support of policy reform programs, private capital flows have virtually dried up and improvements in the incentive environment (launching of investment codes in most African countries) have had minimal impact on private investment, whether foreign or local.

Another dimension of the financing problems relates to the sustainability of the programs that are supported by the World Bank and the IMF. In many instances, African countries have agreed to follow the orthodox adjustment programs with the general understanding that these programs will be sustained by adequate external financing. However, contrarily to expectations in the majority of cases, the badly-needed inflow of external resources has not materialized. Even where pledges of assistance had seemed firm, disbursements have been either substantially delayed or predicated on a number of increasingly tougher conditionalities. In a situation where the country depends on the non-autonomous resources brought through the acceptance of a program, when these resources stop the recovery program breaks down.

Between 1980 and 1988, about US$83 billion of development assistance went to sub-Saharan Africa and the overall economic performance record has been characterized as failure in the light of the continent's crisis. For Western countries, the large supply of funds (ODA) on a large scale to African governments for whatever well intentioned purpose, have strengthened the role of the state in the recipient country and thus undermined the trend toward a market economy and a healthy private sector which is the key to Africa's development. This can be enhanced by the creation of a healthy financial sector, including a sound banking system and capital market which could help the newly small business and encourage large-scale private investment.

***Financing AAF-SAP***

No specific strategy is made for the financing of the AAF-SAP for the obvious reasons that the ECA is not a financing agency like UNDP, the World Bank and the IMF. However, it is recognized in AAF-SAP document that the mobilization of internal and external resources is of crucial importance in the implementation of AAF-SAP. The adjustment with transformation programs must therefore take into account the resource constraints. Precise estimates of the quantity of resources needed should be worked out at individual country level, but generally countries should look for extra finance from improved international commodity trade, reduction of outlays on external debt servicing, increased external resource flows form bilateral, multilateral and private sector sources, promotion of transfers by nationals living abroad, and the prevention of financial leakages through

capital flight, over-invoicing of imports and the prevention of financial leakages through capital flight, over-invoicing of imports and under-declaration of export earnings. Additional resources should also be generated from the growth of African economies.

While internal resources are clearly insufficient, at this stage to achieve both simultaneously the adjustment and development goals, a satisfactory rate of development from a long-term point of view, requires that the proportion of internal savings in total supply of resources be increased. This will provide the basis for self-sustained growth with stability and freedom from intolerable debt burdens. The stimulation of domestic savings generally requires the setting up of adequate institutions, incentive policies and appropriate taxation. While it is certainly difficult to save when the levels of income are very low, it has been recognized that even low income countries, both in Africa and other developing regions, particularly in Asia have demonstrated a capacity to save at least from the additional income resulting from increased production. To promote the agricultural and industrial production while constantly raising the economic efficiency of production is, therefore, of vital importance to resource mobilization in developing African countries.

Export earnings are primary means of economic leverage for achieving recovery and transformation. It is critical, therefore, to address falling commodity prices that deprived Africa of almost US$19 billion in 1986 alone. International discussions of this issue, including proposals for a Common Fund to stabilize commodity prices and removal of barriers to African exports, have gone on for more than two decades. It is high time that agreements are reached to close off the hemorrhage of African foreign exchange reserves.

The mobilization of external financial resources is obviously also needed to supplement the scarce domestic funds available for implementing the adjustment process with transformation (AAF-SAP). Yet, the process is arduous in the situation and prevailing conditions of dwindling foreign official development assistance and increasing 'donor fatigue'. Furthermore, expertise and caution are required to avoid any further balooning of the external debt. In 1988, Africa has become a net exporter of capital, even to the IMF. It is estimated that approximately US$1 billion was transferred to the IMF in 1986 and 1987, almost 1.4% of the annual exports of the region. Agreement to limit debt payments to a manageable proportion of foreign exchange earnings will free up a substantial pool of resources for internal investment.

Effective debt management is also a related strategic issue which deserves a particular attention. Whatever the resources available for implementing AAF-SAP - domestic or external - it is necessary to ensure that they are put to optimum use. Obviously, the main objective in this

context is to increase production, thereby increasing employment and income. A high rate of capital formation has been generally linked to increased production and income. And the efficient management of the investment program, including both the sectorial and project levels, is a crucial element of development planning and financial management. Generally, it is at the annual programming level that planning and budgeting are reconciled.

Development and financial institutions and donor agencies have a critical role to play. The drawbacks of development programs drawn up by outside institutions have already been alluded to: not only do the plans fail to comply with African realities, but strategic thinking and leadership of African planners are stunted and they are placed in charge of policies for which they do not feel personally responsible. International financial institutions are coming to grips with this problem, and increasingly they are aware of the need to formulate assistance programs that correspond with regional and national initiative.

Although AAF-SAP says relatively little on the financing per se of the adjustment with transformation, it deals with length on more efficient, more rational utilization of the resources needed. In this respect, it completes the other continental programs like LPA, APPER, UN-PAAERD. In these programs collective self-reliance is recognized as an integral part of the development strategy as it would, under the African realities, lead inevitably to balanced development through the rationalization of production and consumption structures with the required development in skills to enhance productivity levels. In other words, the essence of development transformation should be generated from within and its dynamics based on Africa's own resources and potentials with a viable exogenous support. Thus, the concept of development or transformation should primarily become an indigenization approach to integrated development that fits better into the social and cultural fabrics of Africa. It is an inward-looking development strategy on collective self-reliant basis that minimizes the excessive dependence of the region on imported products, finance and technology. This entails that the transformation will focus on increased interdependence among growth-led sectors that generate effective forward and backward linkages, a human resource-based development with the central role of human capital. This is the most crucial single factor in spearheading the process of socio-economic transformation, with the support of other forms of capital necessary for technological development and increased labour productivity.

It is the mobilization of this indigenous capital that is most crucial for determining the course of transformation. Self-sustaining development depends basically on the proper and healthy interaction of three factors, namely, population, resources and environment. Rapid transformation will

be achieved when the proper balance between agriculture and industry is maintained so that one can generate resources required by the other with the proper and optimal interaction of soil, people and resources for development. This could be done through:

(i) focus on mass participation and integrated rural development based on grass root development and the village and small farmers community levels;
(ii) creating an industrial base capable of meeting the basic requirements of a self-generating development; and
(iii) the human resources and other forms of indigenous capital are considered as a dynamic force in spearheading the process of socio-eocnomic transformation.

The internationalization of the factors of production is the backbone of such a strategy for resources mobilization. In the first place, developing the capability of local entrepreneurs on a multi-faceted sectorial basis is a factor of crucial importance as a center and source of much widespread growth and better distribution of economic well being. The institutional support to maximize the utilization of human resources requires the promotion of a radical change in the educational system in favour of increased technical orientation through vocational and technical training to fill the glaring skill gap in the productive sectors. It is only through sectorial development programs designed to improve productivity in agriculture and agro-industries that Africa can lessen its dependence on external markets of resources, reinstitutionalize a rightful balance between resources and population, and attain a mastery of its own development.

The savings efforts in the region vary considerably from one income group of countries to the other. But the saving ratios for the majority of the African countries is generally low. One of the serious problems that acts as an impediment on capital formation and development in the African region is the consumption patterns which tend to emulate those of advanced countries. This tendency does not make for saving and capital accumulation out of relatively low income. While the Keynesian contention that consumption expenditures are conductive to economic development and growth may largely be true for developed countries, the same could not be said about the developing African countries as there are limited and fairly inelastic production capacity. Thrift is their only option. Lack of approximity of suitable financial and savings institutions forces people, particularly in the rural areas into hoardings or savings in kind, thereby limiting the size of actual financially mobilisable savings as compared to the potential.

The transformation and recovery process require that major strides are taken in creating the necessary financial institutions and savings organs as well as providing incentives to encourage thrift and use of these institutions

by households in both rural and urban areas. It also entails that efforts to explore unconventional ways to mobilize domestic savings through lending and saving schemes set up or developed from grassroot schemes which target social groups who were widely believed not to participate in the saving process are pursued and strengthened. Along with the expansion of the institutional money and capital market networks, policies have to be undertaken to encourage the holding of financial assets and their channelling into the national banking system.

The government budget is also the most important financial resource mobilization instrument through taxation and investment income. However in view of low tax base and low taxable income, efforts should be made to simplify the tax system, broaden its base and reduce tax leakages by streamlining and reinforcing tax administration apparatus as well as to reinforce the collection of non-tax revenues derived principally from earnings of public enterprises and revenue from sale of government services. Foreign exchange leakages from in particular such loopholes as under-valuation of exports and over-valuation of imports, insurance, transfer pricing of multinationals and tourism and capital flight should be countered. The mobilization of real resources concealed in rural and urban unemployment and underemployment for capital formation should also be pursued. A critical issue is the need to train larger numbers of African workers, managers and technical specialists for both government and private enterprises.

As it is stressed in the UN-PAAERD, the bulk of financial resources to finance transformation and recovery will have to be borne by African governments and African peoples themselves. This could be done through increased domestic savings to reach a level of as much as 25% of GDP, changes in the consumption patterns to favour more domestic products, countering escalating financial leakages, efficient resource management and allocations, etc. These domestic savings efforts need to be complemented by increased flows of capital from external sources on manageable terms. Thus, the implementation of the alternative framework for Africa's transformation and recovery requires external re-orientation, particularly with respect to funding. First, it demands an inward-looking strategy to make internal funding the dominant source of financing for the program. This requires effective domestic resource mobilization, more efficient use of resources and competent management of the economy. In addition to the national efforts, there will also be need for more effective African cooperation on subregional and regional bases in such areas as the pooling of resources, joint planning and execution of projects, increased intra-African trade, especially commodity barter trade, the sharing of information and so on.

## Conclusion

The "African Alternative Framework to Structural Adjustment Programs" (AAF-SAP) pointed to the fact that structural change or reform or adjustment must be recognize as a long-term endeavour for which considerable flexibility is required if grave social disruption is to be avoided and that the strategy for achieving the desired adjustment or reform should come from within each country, in accordance with its need, priorities, and short-term reforms compatible with medium- or long-term planning. The ECA secretariat is still searching for means and ways of effectively implementing structural adjustment with transformation through use of specific studies, and monitoring and subregional exchanges of experiences.

Proposals designed to improve the operational, implementation and monitoring characteristics of such an integration approach of AAF-SAP would include:

(1) the improvement of information systems in order to monitor the activities of the non-structural sector, minimize voluntary or involuntary errors or omissions in foreign trade and financial flows, and provide more reliable and accurate socio-economic indicators;

(2) the modification of planning methods to ensure a more effective co-ordination among the various ministries and decision-making bodies, in particular the coordination between the annual budget and the medium-term plan through the institution of the "hard core" of high priority for public decision-makers which offers adequate incentives to major national, subregional and international economic units;

(3) the adoption of the Planning Programming Budgeting System (PPBS) method in which the plan has a sliding horizon and intemporal choices are dictated by the employment/current resource balance of the government budget;

(4) the short-term objectives and macro-economic policy are used as a tool of checking and connecting medium-term policy management.

To facilitate this process, a time-schedule for plan preparation, implementation and monitoring is indispensable. Experience from Africa (and elsewhere in developing world) suggests that solid information on the economic performance of the past year usually surfaces about mid way through the succeeding year. However, as soon as some indications of the economic outlook become available, the formulation of the objectives, strategy and broad dimensions of the coming year's annual rolling plan must be presented as guidelines to the agencies concerned with the working out of targets, programs, projects and policy instruments for adjustment with transformation.

At the operational level, the ECA secretariat has already initiated four main studies relating to the AAF-SAP model-types and an in-depth analysis

of some of the policy estimates of AAF-SAPs so as to facilitate these smooth implementation at the national and sub-regional levels. These include:

(a) production subsidies for sustaining growth,

(b) scope and limitation for differential interest rates, and

(c) the possibilities and problems of multiple exchanges systems.

These studies which were submitted to the joint meeting of the Conference of African Planners, Statisticians and Demographers, at the inaugural conference of the African Economic Association and lately at the ECA Conference of Ministers Responsible for Economic Development, Planning and Policies in Tripoli (Libya) last May 1990, will soon be published.

The 1990 decade is envisaged as a challenge posed by regional blocks, namely the plans for a single, barrier-free European community market after 1992, the de facto North American partnership of Canada and the United States, and closer economic ties among the newly industrializing countries of the Pacific rim, such as Hong Kong, South Korea and Taiwan. There is, therefore, an urgent need to speed up moves towards economic integration in Africa and the establishment of an African Common Market well before the target date of 2000 which had been set in the Lagos Plan of Action in 1980. Such integration, at sub-regional and regional levels, demanded closer coordination of economic and social policies, development of multi-country projects, promotion of intra-African trades and more immediately, the creation of an African Monetary Fund which has been on the drawing board for 10 years. Preparing Africa for the 1990s must also include funding a viable African alternative, at the country level, to existing orthodox structural adjustment programs which has failed to yield positive or sustained results in the 1980s.

**Annexes**

***Empirical Evidence on SAPs***

Most of the empirical work in this paper is based on the "monetary equation" (2.15) and the "fiscal equation" (2.12) written in linear form, the equations to be estimated using the ordinary least squares (OLS) method are:

$$\Delta R = a_0 + \Delta Y + a_2 P + a_3 \Delta DGP + a_4 \Delta DCG \qquad (\textit{monetary equation})$$

$$X - M = B_0 + b_1 \Delta Y + b_2 P + b_3 \Delta DGP + b_4 (G - T) \qquad (\textit{fiscal equation})$$

The expected signs of the coefficients of these two equations are:

$A_1 > 0 \quad a_2 < 0 \quad a_3 = -1 \quad a_4 = -1$

$b_1 > 0 \quad B_2 \geq 0 \quad b_3 < 0 \quad b_4 = -1$

However, the single-equation estimation of the "monetary equation" can be criticized on the ground that there might be a simultaneity between domestic

credit creation and changes in international reserves[20]. This will be plausible if the monetary authorities use credit policy to "sterilize" the effects of balance of payments on the money supply. To take into account this possible simultaneous relationship between domestic credit creation to the government and the change in international reserves, a monetary reaction function can be derived assuming that credit creation to the government is dictated by the change in international reserves (actual and lagged one period) and the level of the budget deficit. Accordingly two stages least squares (2SLS) estimation of the following simultaneous system were made:

$\Delta R = C_0 + c1\ \Delta Y + C_2P + C_3\Delta DGP + C_4\Delta DCG$

$\Delta DCG = d_0 + d_1\ \Delta R + d_2\ \Delta R\text{-}1 + d_3(G - T)$

Similarly, to take into account the plausible simultaneity between budget deficit and the current account and between deficit and income, in estimating, the "fiscal equation" a fiscal policy reaction function was derived assuming that the budget deficit (surplus) is functionally related to the change in income, the trade balance (actual, and lagged one period), a capital inflow which is a source of financing the budget). This leads to the following simultaneous system which is estimated using 2SLS:

$X - M = c_0 + c_1\ \Delta Y + C_2P + c_3\Delta DCP + C_4(G\text{-}T)$

$G - T = f_0 + f_1\ \Delta Y + f_2K + f_3(X - M) + f_4(X - M)\text{-}1$

20 See N.C. Miller, "Monetary vs Traditional Approaches to Balance of Payments Analysis", *American Economic Review*, No. 1 (May 19780.

**Table 1: Single Equation Estimation Results using "Monetary Equation"**

$$AR = a_0 + a_2 P + a_3 ADCP + a_4 ADCG$$

| Country | Constant $a_0$ | $a_1$ | $a_2$ | $a_3$ | $a_4$ | $R^2$ | S.E. | D.W. F-Ratio |
|---|---|---|---|---|---|---|---|---|
| 1. Ethiopia | -41.12100 | 0.10171 | -6.142215 | 0.23950 | 0.72183 | 0.5803 | 34.861 | 1.1564 |
| (1960-1988) | (-1.79)* | (1.53) | (-2.91)* | (1.23) | (4.25)** | | | 5.1857 |
| 2. Kenya | 34.18900 | -0.08852 | 47.69500 | -0.12552 | -0.40046 | 0.8911 | 50.307 | 2.4215 |
| (1966-1988) | (1.17) | (-3.77)** | (5.44)** | (-2.34)* | (-3.02)** | | | 7.9631 |
| 3. Malawi | -5.2116 | -0.18246 | -0.64222 | 0.48276 | 1.10653 | 0.5514 | 18.300 | 1.8401 |
| (1965-1988) | (-0.50) | (-0.76) | (-0.60) | (1.19) | (2.64) | | | 3.3795 |
| 4. Sudan | 10.5370 | -0.19526 | -0.55926 | 0.96744 | 0.38944 | 0.6905 | 27.297 | 1.7269 |
| (1960-1988) | (1.21) | (-3.73)** | (-0.42) | (1.81)* | (1.79)* | | | 7.8074** |
| 5. Tanzania | 15.6870 | -0.02234 | -3.42227 | 0.12769 | 0.06471 | 0.6941 | 50.405 | 1.7489 |
| (1966-1988) | (0.66) | (-2.53)* | (-1.92)* | (1.08) | (4.19)** | | | 5.6718* |
| 6. Uganda | 0.32824 | -0.00091 | 0.16389 | -0.01052 | 0.00828 | 0.2358 | 17.763 | 2.5148 |
| (1966-1988) | (0.04) | (-0.36) | (0.36) | (-0.28) | (0.73) | | | 0.6942 |
| 7. Zambia | -21.04500 | 0.19458 | -9.62128 | 1.04226 | 0.63473 | 0.4745 | 92.469 | 1.1787 |
| (1964-1988) | (-0.45) | (0.98) | (-1.40) | (2.48)* | (0.97) | | | 2.4833 |
| Pooled Cross- Section | 13.16600 | -0.01925 | 0.37072 | 0.05079 | 0.08068 | 0.1286 | 78.541 | 1.8376 |
| (1966-1988) | (1.82)* | (-2.21)* | (1.73) | (2.40)* | (3.00)* | | | 3.6524 |

**Source:** IMF International Financial Statistics Yearbook, 1980-1989 and ECA's National Account Statistics

**Notation:** X = exports of goods & services; M = imports of goods & services; AY = change in gross national product (GNP): P = rate of inflation; ADCP = change in net domestic credit to the private sector; ADCG = change in net domestic credit to the government; G = government expenditures; T = government revenues; K = capital inflow; X - M = current account balance; G - T = budget deficit; and AR = change in international reserves.

* = significant at the 5 per cent level (Figures in parentheses are t-values)

** = significant at the 1 per cent level (Figures in parentheses are t-values)

**Table 2: Single Equation Estimation Results using "Fiscal Equation"**
$$X - M = b_0 + b_1 AY + b_2 P + b_3 ADCP + b_4 (G - T)$$

| Country | Constant $b_0$ | $b_1$ | $b_2$ | $b_3$ | $b_4$ | $R^2$ | S.E. | D.W. F-Ratio |
|---|---|---|---|---|---|---|---|---|
| 1. Ethiopia | -16.14900 | 0.20594 | 2.73132 | -1.29098 | 0.97500 | 0.6619 | 94.853 | 2.3416 |
| (1960-1988) | (-0.37) | (1.17) | (0.53) | (-2.48)* | (3.47)** | | | 5.7035* |
| 2. Kenya | 114.4600 | 0.38047 | -248.11000 | 0.00913 | 0.26062 | 0.6314 | 1505.800 | 0.5978 |
| (1966-1988) | (0.15) | (1.04) | (-2.85)* | (0.01) | (0.30) | | | 5.4407 |
| 3. Malawi | -2.70910 | -0.02178 | -1.38716 | -1.04191 | 1.26857 | 0.9223 | 15.446 | 1.9887 |
| (1965-1988) | (-0.29) | (-0.11) | (-1.11) | (-2.27)* | (2.60)* | | | 32.6230** |
| 4. Sudan | -41.42500 | 0.29025 | 0.68680 | -1.28279 | -1.19486 | 0.9645 | 26.552 | 2.1958 |
| (1960-1988) | (-4.29)** | (5.58)** | (0.53) | -(2.18)* | (-6.44) | | | 95.0450** |
| 5. Tanzania | 270.67000 | -0.043206 | -84.7770 | -2.9840 | 0.89691 | 0.8740 | 788.240 | 1.8520 |
| (1966-1988) | (0.27) | (3.82)* | (-3.83)** | (-1.61) | (3.23)** | | | 17.3480** |
| 6. Uganda | 479.46000 | -10.35562 | 38.9570 | 2.39543 | 0.34395 | 0.5496 | 1213.000 | 2.6417 |
| (1966-1988) | (0.75) | (-2.09)* | (-1.34) | (1.07) | (0.73) | | | 2.7453* |
| 7. Zambia | 79.51800 | 0.49174 | -3.73449 | -0.98832 | -0.44431 | 0.6798 | 117.440 | 1.2922 |
| (1964-1988) | (1.43) | (2.16)* | (-0.50) | (-1.91)* | (-1.23) | | | 5.8386* |
| Pooled Cross- Section | -98.82400 | -0.03969 | 0.65202 | 0.02994 | -0.02719 | 0.0932 | 231.87 | 1.0846 |
| (1966-1988) | (-3.88) | (-1.90) | (1.11) | (0.45) | (-0.16) | | | 2.5439 |

**Source:** Ibid.
**Notation:** See Table 1

**Table 3: 2 SLS Estimation Results using "Monetary Equation"**
**$AR = c_0 + c_1 AY + c2_3 + c_4 ADCG + c_4 ADCG$**

| Country | Constant $c_0$ | $c_1$ | $c_2$ | $c_3$ | $c_4$ | $R^2$ | S.E. | D.W. F-Ratio |
|---|---|---|---|---|---|---|---|---|
| 1. Ethiopia | -49.360 | 0.12895 | -8.32494 | 0.30400 | 0.94382 | 0.5324 | 36.320 | 1.4145 |
| (1960-1988) | (-2.89) | (1.78) | (-3.17)** | (1.45) | (4.13) | | | 4.2702* |
| 2. Kenya | 116.920 | -0.17865 | 84.549 | -0.07130 | -0.99050 | 0.6511 | 90.047 | 2.6013 |
| (1966-1988) | (1.31) | (-2.01)* | (2.37)** | (-0.67) | (-1.75)* | | | 5.2223* |
| 3. Malawi | -9.54154 | -0.05724 | -0.45478 | 0.55180 | 0.32013 | 0.4079 | 21.023 | 2.1097 |
| (1965-1988) | (-0.61) | (-0.14) | (-0.16) | (1.12) | (0.17) | | | 1.8945 |
| 4. Sudan | 12.514 | -0.17202 | -0.62074 | 1.14357 | 0.22133 | 0.6773 | 27.871 | 1.7061 |
| (1960-1988) | (1.39) | (-3.08)** | (-0.46) | (2.04)* | (0.88)* | | | 7.3471** |
| 5. Tanzania | 14.276 | -0.02097 | -2.95791 | 0.13092 | 0.05885 | 0.6897 | 50.768 | 1.8616 |
| (1966-1988) | (0.60) | (-2.34)* | (-1.60) | (1.10) | (3.56)** | | | 5.5556* |
| 6. Uganda | 0.38844 | -0.00087 | 0.25174 | -0.01884 | 0.03499 | 0.2208 | 17.936 | 2.3256 |
| (1966-1988) | (0.22) | (-0.35) | (0.45) | (-0.39) | (0.17) | | | 0.6376 |
| 7. Zambia | -11.816 | 0.15725 | -8.09756 | 0.93436 | 0.35690 | 0.4660 | 93.216 | 1.7720 |
| (1964-1988) | (-0.13) | (0.41) | (-0.55) | (0.91)* | (0.44) | | | 2.3997* |
| Pooled Cross- Section | 14.024 | -0.00031 | -0.03221 | 0.03084 | 0.00554 | 0.0601 | 76.376 | 1.8777 |
| (1966-1988) | (1.86)* | (0.00) | (-.11) | (1.27) | (0.12) | | | 3.5826 |

**Source:** Ibid.
**Notation:** See Table 1.

**Table 4: 2 SLS Estimation Results using "Fiscal Equation"**
**$ADCG = d_0 + d_2\,AR + d_3\,AR_{-1} + d_3\,(G - T)$**

| Country | Constant $d_0$ | $d_1$ | $d_2$ | $d_3$ | $R^2$ | S.E. | D.W. F-Ratio |
|---|---|---|---|---|---|---|---|
| 1. Ethiopia | -24.280 | -0.46962 | 0.25028 | -0.67883 | 0.7985 | 42.066 | 2.3646 |
| (1960-1988) | (-1.48) | (1.04) | (0.81) | (-6.13) | | | 21.1470* |
| 2. Kenya | 54.533 | 2.47391 | -0.51157 | -0.35860 | -0.62956 | 273.590 | 1.8802 |
| (1966-1988) | (0.34) | (3.21)** | (-0.56) | (-2.56)* | | | 16.6666* |
| 3. Malawi | -6.03939 | -0.16666 | -0.15087 | -0.50852 | 0.0891 | 15.703 | 1.6149 |
| (1965-1988) | (-0.28) | (-0.13) | (-0.68) | (-0.67) | 0.3914 | | |
| 4. Sudan | 33.871 | -0.17338 | -0.10936 | 0.67886 | 0.9316 | 19.480 | 2.2863 |
| (1960-1988) | (5.80)** | (-3.05) | (-0.79) | (12.13)** | 68.1520 | | |
| 5. Tanzania | 239.17 | 10.787 | 0.34318 | -0.79798 | 0.8106 | 690.130 | 1.4602 |
| (1966-1988) | (0.82) | (2.63)* | (0.10) | (-3.11)** | | | 15.6890 |
| 6. Uganda | 574.16 | 134.36 | 30.548 | 0.41245 | 0.1875 | 2226.100 | 1.9863 |
| (1966-1988) | (0.44) | (0.84) | (0.60) | (0.27) | | | -2.5503 |
| 7. Zambia | -25.469 | -0.56547 | -0.014141 | -0.19843 | 0.2365 | 74.2700 | 2.1414 |
| (1964-1988) | (0.97) | (-1.36) | (-0.07) | (-0.79) | | | -2.0985 |
| Pooled Cross- Section | 71.292 | 5.057669 | -0.20586 | 1.88474 | 0.2236 | 435.3600 | 2.1520 |
| (1966-1988) | (1.14) | (2.03)* | (-0.37) | (7.33)** | | | 9.59893* |

**Source:** Ibid.
**Notation:** See Table 1.

**Table 5: 2 SLS Estimation Results with Dependent Variable (X - M)**
$$X - M = c_0 + c_2\,AY + c2\,P + c_3\,ADCP + c_4\,(G - T)ADCG$$

| Country | Constant $1_0$ | $1_1$ | $1_2$ | $1_3$ | $1_4$ | $R^2$ | S.E. | D.W. F-Ratio |
|---|---|---|---|---|---|---|---|---|
| 1. Ethiopia | -18.434 | 0.14808 | 8.89667 | -1.42645 | 1.42803 | 0.6033 | 102.74 | 2.5977 |
| (1960-1988) | (0.34) | (0.76) | (1.19) | (-2.49)* | (3.00)** | | | 5.7031* |
| 2. Kenya | 221.380 | 0.41086 | -245.08000 | 0.047223 | 0.56455 | 0.6263 | 1516.0 | 0.6601 |
| (1966-1988) | (0.29) | (1.11) | (-2.80)* | (0.03)* | (0.62) | | | 5.9801* |
| 3. Malawi | -2.47509 | -0.019882 | -1.32072 | -1.02169 | 1.30074 | 0.9223 | 15.449 | 1.9696 |
| (1965-1988) | (-0.26) | (-0.10) | (-0.98) | (-2.11) | (2.38*) | | | 32.6370* |
| 4. Sudan | -44.9050 | -0.31096 | -0.61838 | -1.04697 | -1.31828 | 0.9634 | 26.968 | 2.2116 |
| (1960-1988) | (-3.50)** | (4.30)** | (0.47) | (-1.28) | (-3.78)** | | | 92.0290** |
| 5. Tanzania | 283.63 | -0.022759 | -90.9950 | -2.83389 | 0.70907 | 0.8683 | 06.07 | 1.1082 |
| (1966-1988) | (0.76) | (-0.13) | (-3.93)** | (-1.49) | (2.26)* | | | 16.4790* |
| 6. Uganda | 568.750 | -0.35986 | 40.7800 | 2.28336 | 0.43796 | 0.5476 | 1215.7 | 2.6797 |
| (1966-1988) | (0.82) | (-2.10)* | (1.37) | (1.00) | (0.80) | | | 2.7232 |
| 7. Zambia | 80.047 | 0.49137 | -3.75533 | -0.98222 | -0.43684 | 0.6798 | 117.44 | 1.2921 |
| (1964-1988) | (1.42) | (2.16)* | (-0.50) | (-1.86)* | (-1.14) | | | 5.8882* |
| Pooled Cross- Section | -92.773 | -0.04641 | 0.81829 | 0.04134 | 0.06028 | 0.0906 | 232.20 | 1.0710 |
| (1966-1988) | (-0.37) | (-0.17) | (0.12) | (0.09) | (0.02) | | | 2.4655* |

**Source:** Ibid.
**Notation:** See Table 1.



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**Table 6: 2 SLS Estimation Results with Dependent Variable G - T**
$$G - T = f_0 + f_2\,AY + f2\,K + f_3\,(X - M) + f_4\,(X - M)_{-1}$$

| Country | Constant $f_0$ | $f_1$ | $f_2$ | $f_3$ | $f_4$ | $R^2$ | S.E. | D.W. F-Ratio |
|---|---|---|---|---|---|---|---|---|
| 1. Ethiopia | 8.56636 | -0.018734 | -1.75559 | 0.21648 | 0.080318 | 0.7540 | 73.53 | 2.6587 |
| (1960-1988) | (0.29) | (-0.19) | (-2.48)* | (0.70) | (0.43) | | | 11.4930** |
| 2. Kenya | -42.31300 | -0.016175 | -1.88618 | 0.022089 | 0.36525 | 0.9179 | 210.06 | 2.2839 |
| (1966-1988) | (-0.37) | (0.43) | (-4.66)** | (0.61) | (7.28)** | | | 25.1550** |
| 3. Malawi | -2.19204 | -0.015025 | -0.63486 | 0.10101 | 0.098040 | 0.9698 | 4.2235 | 1.4029 |
| (1965-1988) | (-0.90) | (-0.29) | (-2.24)* | (0.84) | (2.24)* | | | 88.3810** |
| 4. Sudan | -34.15500 | 0.18266 | 0.26547 | -0.43822 | -0.15663 | 0.9707 | 20.101 | 2.2022 |
| (1960-1988) | (-4.84)** | (3.69) | (0.59) | (-2.41)* | (-0.78) | | | 7.8074** |
| 5. Tanzania | -147.3700 | -0.16705 | 1.44421 | 0.26048 | 0.61753 | 0.9475 | 292.81 | 1.3747 |
| (1966-1988) | (-1.16) | (-2.89)* | (4.92)** | (1.60) | (5.04)** | | | 45.1620** |
| 6. Uganda | -1459.1000 | -0.028458 | 2.80586 | -0.16309 | 1.07012 | 0.8008 | 479.20 | 1.3309 |
| (1966-1988) | (-5.98)** | (-1.50) | (2.79)* | (-0.90) | (3.32)** | | | 9.0462* |
| 7. Zambia | -155.77000 | 0.19075 | -1.63863 | 0.46050 | 0.46516 | 0.8123 | 64.481 | 0.9162 |
| (1964-1988) | (-4.83)** | (1.51) | (-4.54)** | (3.39)** | (3.90)** | | | 11.9010** |
| Pooled Cross- Section | -108.31000 | -0.01439 | -0.66610 | -1.37537 | 0.68657 | 0.1815 | 300.35 | 2.2731 |
| (1966-1988) | (-2.76)* | (-0.72) | (-0.75) | (-2.10) | (2.38)* | | | 8.1405* |

**Source:** Ibid.
**Notation:** See Table 1.