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Sub-Saharan Africa: Progress Report on Development Prospects and Programs

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SUB-SAHARAN AFRICA:

PROGRESS REPORT ON DEVELOPMENT PROSPECTS AND PROGRAMS

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SUMMARY

Objectives of Progress Report

The World Bank issued its Report on "Accelerated Development in Sub-Saharan Africa: An Agenda for Action" (the Bank's Africa Report) in 1981. The Report responded to a request of the African Governors for a special program of action to deal with the severe and complex economic problems facing Sub-Saharan African countries. Over the past two years the African crisis has deepened. A review of the situation is, therefore, timely.

This Progress Report highlights some of the major problems which African governments have faced in designing and implementing programs of reform particularly in the context of the deteriorated global trading and financial circumstances. The paper then examines changes which have been introduced in the level, pattern, and design of World Bank economic work and operations in support of such reforms and to give effect to the commitment to accord priority to Africa. It also reviews the extent of donor government responses to the increased and changed needs of African countries for external assistance.

The Progress Report is not intended to be exhaustive in either its coverage of countries or of issues. The examples which are presented are intended to illustrate changes which are desirable rather than to suggest that they are representative of what has happened more generally. Moreover there is no intention to attribute any of the changes which have occurred to the publication of the Bank's Africa Report. There was widespread awareness before 1981, both within and outside of Africa, of the issues raised in the Report. In particular, the Lagos Plan of Action[1] had already indicated the need for change and had set out the long-term objectives for African development. The primary contribution of the Bank's Africa Report was to present, in a comprehensive and systematic manner, the policy issues which needed to be addressed if the widespread decline in per capita output and of other economic indicators was to be reversed. Reversing these trends is an essential condition for the achievement of the long-term objectives. The Bank's Report expressed the urgent need for African governments to formulate policies and programs to bring about this essential improvement in the production base of African economies and for donors to assist in the design of policies and provide financial support for their implementation.

The Deepening Crisis

The deterioriation in the economic situation of African countries, which characterized the 1970s, has continued into the 1980s. All major economic indicators -- GNP growth rates, agricultural growth rates, the level of exports and of food imports among other indicators -- remain matters of extreme concern. In 1981 and 1982, GDP in Sub-Saharan Africa, excluding Nigeria, grew at an average annual rate of 1.2 percent and 1.6 percent. Nigeria experienced negative GDP growth rates in both years (-5.2 percent in 1981 and -2.4 percent in 1982) which means that for Sub-Saharan Africa as

1/ Lagos Plan of Action adopted by the Heads of State and Government of the Organization of African Unity, United Nations A/S-11/14, dated August 21, 1980.

a whole GDP virtually remained unchanged. Consequently, income per capita declined again. Stagnation in GDP has been accompanied by a marked weakening of the fiscal and balance of payments situation. The burden of debt service payments has become oppressively heavy in a large number of countries, arrears have accumulated, and foreign exchange reserves have dwindled.

Year-to-year variations in GDP and other economic magnitudes are, of course, dangerous indicators of performance and prospects for countries where they can be reflecting changes in weather rather than changes in policy. Nevertheless a situation in which output is persistently growing markedly less rapidly than the estimated 2.7 percent rate of growth of population clearly cannot be permitted to continue. The Economic Commission for Africa (ECA) has recently characterized the crisis in Africa in the most graphic but realistic terms. In its preliminary perspective study, "ECA and Africa's Development 1983-2008" published in April 1983 on the occasion of the Silver Jubilee of the Economic Commission for Africa, it is stated:

> The picture that emerges from the analysis of the perspective of the African region by the year 2008 under the historical trend scenario is almost a nightmare. Bearing in mind that the future of 2008 is the future of the young and unborn children of Africa today, the implications have to be taken seriously. Firstly, the potential population explosion would have tremendous repercussions on the region's physical resources such as land and the essential social services, education, health, housing, nutrition, water, etc. At the national level, the socio-economic conditions would be characterised by a degradation of the very essence of human dignity. The rural population, which would have to survive on intolerable toil, will face an almost disastrous situation of land scarcity whereby whole families would have to subsist on a mere hectare of land. Poverty would reach unimaginable dimensions since rural incomes would become almost negligible relative to the cost of physical goods and services.
>
> The conditions in the urban centres would also worsen with more shanty towns, more congested roads, more beggars and more delinquents. The level of the unemployed searching desperately for the means to survive would imply increased crime rates and misery.

Domestic Policy Reform and External Assistance

The immediate and continuing economic crisis in Africa is overwhelmingly a production crisis. It is a crisis which has arisen from the widespread adoption of structures of prices and incomes which have provided inappropriate production incentives. In particular they have provided inadequate incentives to agricultural producers and this has been aggravated by the development of costly and inefficient marketing systems for both inputs and outputs. Even within the basic constraints to development -- population growth, technological options, skill and health levels of the people, etc. -- very significant increases in production are possible.

The Bank's Africa Report presented an Agenda for Action for addressing this production crisis. Emphasis was given in the Agenda both to domestic policy reform and to the need for increased external assistance. There is now evidence that many African governments are more clearly aware of the need to take major steps to improve the efficiency of resource use in general but especially to improve the efficiency of the productive sectors of their economies. In the agricultural sector in particular, measures are being taken to improve the incentive framework and the working of markets.

However, neither the number of countries in which changes in policies are taking place nor the extent and speed with which revised programs are being implemented are adequate to meet the crisis situation. On the contrary, if the deterioration in economic performance which occurred in most of Sub-Saharan Africa during the 1970s and early 1980s is to be halted and then reversed, the new directions of policy which can be seen and detected simply represent an important but modest beginning towards what is required.

Increased external assistance is now critical to this process. The early stages of policy reform which are being implemented in many countries need to be nurtured, while in several other countries, governments are likely to be observing what level of external support they can expect if they embark on major programs of policy reform. This need for increased external support is reinforced by the dramatic fall in primary commodity prices since 1980. Attempts by African governments to implement policy reforms which will improve their balance of payments situation and prospects are being frustrated by deteriorated terms of trade.

While commercial flows, including debt rescheduling, have a role to play in providing this external support, the major role in Africa has to be played by the donor community. Moreover this support cannot be limited to a one- or two-year increase in assistance. Policy reform by African governments will have to be phased over many years and its beneficial impact on the structures of the economies, on output, on the budget, and on the balance of payments, will only be forthcoming in subsequent years. It follows that external assistance must not only be markedly increased but also sustained over many years. In fact ODA commitments to Africa in 1981 fell by 8 percent in nominal terms and net disbursements stagnated. It is likely that the 1982 figures when they are available will show an increase in disbursements of ODA to Africa but it would be premature to interpret this increase as reflecting a trend. While there are cases such as those of Ivory Coast and Sudan which provide examples of the orchestrated effort which is required by all parties -- host government, IMF, World Bank, and the donor community -- it will be difficult to replicate these examples.

The World Bank Role

At the Annual Meeting of the Governors of the World Bank in 1981, the President established three priorities for the Bank during the 1980s -- Africa, agriculture and energy. Both agriculture and energy are central issues for African development and consequently their priority reinforces the regional priority accorded to Africa.

The emphasis given to Africa has resulted in significant changes in Bank financial and non-financial activities designed to provide increased support for policy reform. As regards staff support for policy reform, it is now clearly recognized that the Bank's non-financial role in Africa is different not only in magnitude but also in content from what it is in other countries of the developing world. This has always been recognized in relation to project preparation and implementation; hence, for instance, the existence of the two Regional Missions in East and West Africa. The Bank's Africa Report emphasized that the overwhelming problems in these countries were now related less to project issues than to the overall institutional and policy framework within which projects are implemented and operated. The Bank has moved to address these issues through technical assistance and through its own increased and refocussed country economic and sector work. Increased assistance has been given to the formulation of policy options which are more politically acceptable even though they are not first-best solutions in terms of the need. This assistance has been channelled particularly towards those countries in which the prospects for policy change seemed to be most favorable and where the policy issues have been the major feature in the design of Bank operations -- most obviously those where Structural Adjustment Lending operations and other non-project operations have been commenced or are in prospect.

Increased financial support for Africa has been constrained by the shortage of IDA resources and by the limited creditworthiness of many African countries. Despite a substantial shortfall in the anticipated availability under IDA VI, IDA lending to Sub-Saharan Africa rose from $954 million in FY81 to $1230 million in FY83 -- an increase of 29 percent. The share of IDA going to Sub-Saharan Africa rose from 27 percent to 37 percent. While Bank lending also rose in FY82, to $960 million, it declined in FY83 due to extraordinary difficulties experienced by Nigeria, which forced sharp reductions on new investments. Total net disbursements to Sub-Saharan Africa rose from $750 million in FY81 to over $1140 million in FY83 -- an increase of over 50 percent -- reflecting the greater emphasis on quick-disbursing assistance in support of policy reforms, maintenance of existing infrastructure and productive capacity, in response to the crisis.

Under present Bank programs, commitments to Africa are planned to grow at 5 percent per annum in real terms, compared with a 2.9 percent growth in IBRD/IDA lending as a whole. This will not, however, be possible, given the limited creditworthiness of African countries for IBRD lending, unless IDA funding is considerably increased over that of the last two years.

Replenishment of IDA at an adequate level is now critical if effective support is to be given to the incipient movement towards major policy reform in Africa. The Bank has a major role to play if this movement is to be sustained, deepened and extended. It would be an international tragedy if, at a time when the willingness of African governments to rethink and revise their programs was increasing, donors in general and contributors to IDA in particular could not mobilize commensurate financial support for these countries.

I. INTRODUCTION

1. Background

The Bank's Report on "Accelerated Development in Sub-Saharan Africa: An Agenda for Action" was prepared in response to a request from the African Governors at the Annual Meeting in September 1979. The Bank's Report was discussed by Executive Directors in July 1981 and was considered by the African Governors and the Development Committee during the 1981 Annual Meeting, and further discussed by the African Governors during a meeting specially convened for this purpose in Dakar in March 1982.

There have been many other official discussions and reviews of the Report by African regional institutions (Economic Commission for Africa, Organization of African Unity, African Development Bank), by donor groups (Development Assistance Committee, Cooperation for Development in Africa, Organization of Petroleum Exporting Countries), and by such organizations as the UNDP and the European Economic Community. The Bank also consulted on the Report with bilateral aid agencies and multilateral development institutions. Furthermore the Report has become a major focus of debate on African development problems and policies in the academic community, in the private sector, and in the media, both in Africa and elsewhere.

Bank managers and staff have actively participated in this debate. The President addressed the critical issues of African development in his speech to the Nigerian Institute of International Affairs in Lagos in April 1982, and the Secretary and Vice President did so in his keynote address to an international conference on "Africa: Which Way out of the Recession?", organized by the Scandinavian Institute of African Studies, Uppsala, Sweden, in September 1982. Many other opportunities have been taken by Bank senior managers and staff to contribute to the debate. Papers have been prepared for seminars and conferences, and the Information and Public Affairs Department has arranged special press briefings. The Economic Development Institute, in addition to giving increased priority to participants from Africa in its regular training programs, has commenced a program of seminars for high-level African officials which address the major issues of African development policy. These seminars are being undertaken in close collaboration with operational and research staff.

2. Diagnosis of the Economic Crisis

(a) Domestic Policies

The Bank's Africa Report had concluded that if the declining trend of per capita incomes in Africa was to be reversed, major programs of domestic policy and institutional change were required. It was emphasized that the focus should be on those reforms which are required now and over the next few years for increasing the efficiency with which scarce resources are used -- human and financial, managerial and technical, domestic and foreign. Within these reforms, measures which would bring about a marked switch in the incentive structure and in the allocation of government resources towards the agricultural sector were critical. The issue was not priority to food supply versus priority to export agriculture but priority to the agricultural sector as a whole.

However, for most African countries, an improvement in agricultural incentives is unlikely to occur without a marked improvement in the efficiency with which agricultural outputs and inputs are marketed and without a greater willingness by governments to use exchange rate policy more actively -- measures which were regarded as of paramount importance in the Bank's Africa Report. Moreover the achievement of a higher level of self-sufficiency in basic foodcrops will require much more attention to research on these crops over the next decade and much less concern over meeting from domestic sources the typically subsidized demands of the urban population for high-cost foodstuffs. During this period the need for foreign exchange for essential imports and other payments (e.g., debt service) will mean that existing export agricultural opportunities will have to be more fully exploited by African countries. This would be in contrast with the 1970s when, in many export markets, Africa lost market shares to other suppliers including other developing countries whose comparative advantage in these commodities was less than African countries (see Africa Report, Table 3.5).

The Bank's Africa Report also emphasized that a prosperous agriculture is necessary for the rapid growth of industry.[1/] The rapid development which the Bank advocated of textiles, metal manufactures, building materials, and light consumer goods, would only be possible if farmers had the incomes to buy increased inputs, tools and equipment, and if they were experiencing rising standards of consumption.

(b) Global Economic Situation

The poor economic performance of African countries was not attributed in the Bank's Africa Report to any major extent to the international trade and financial environment which they had faced. Although during 1979-80, when the Report was being prepared, a major deterioration had already occurred in the global economy, a longer-term review of the 1960s and 1970s had concluded that the problems of development in Africa could not be attributed principally to these factors. For most countries, movements in the terms of trade had been favorable or neutral and market access, while important, had not been a critical problem. Furthermore aid flows in real terms had increased significantly, by about 6 percent per annum during the 1970s; interest rates were relatively low; and, with the exception of a few countries such as Sudan, Zaire and Zambia, the external debt burden was not a major drag on their economies.

1/ This was also a major theme of the World Development Report, 1982.

Developments since 1980 warrant a greater degree of concern about the external economic circumstances confronting African countries. Over the past few years, the externally determined foreign exchange situation has become a major constraint on almost all African countries. Falling export prices, aggravated in some instances by restrictions on market access, have undermined attempts by governments to improve their balance of payments. For instance, in Sudan, major changes in macro and sectoral policies have been introduced by the Government in recent years to improve cotton production for exports. These policy reforms contributed to a 35 percent increase in output in 1981 and to a further 10 to 20 percent increase in 1982. However, due to the fall in the world market price, the increased foreign exchange earnings which could have been expected from increased cotton production have essentially been wiped out. In Senegal, an increase in incentive prices for groundnuts was followed by a greater-than-anticipated fall in the world market price which upset the effort to restore budgetary equilibrium. In Kenya, the implementation of a major program for reforming the protective system in order to improve both the industrial and agricultural incentive structure is being slowed down because of the desperate shortage of foreign exchange earnings from traditional exports especially tropical beverages. Similar developments have taken place in other countries as a consequence of the drastic and persistent falls in export prices, aggravated by rising debt service commitments.

Moreover, this deterioration in the international trading environment of African countries is unlikely to be reversed in a major way during the 1980s. Even under relatively optimistic assumptions about the speed and magnitude of the economic recovery in the OECD area, the prices of relatively few of the export commodities of African countries are expected to show increases in real terms.

A sizeable fall in the real prices of coffee, cocoa and tea is envisaged compared to average levels recorded over the past 20 years. The same is true of palm oil and groundnuts, although, perhaps, to a smaller extent. While copper and iron ore prices may rise from the extremely low levels of recent years, they are expected to remain far below the average for the 1960s. Altogether, the average price level in the 1980s is expected to remain about 15-20 percent below that prevailing in the 1960s or the level obtaining in the second half of the 1970s.

SUB-SAHARA AFRICA: COMMODITIES, PRICE TRENDS AND PROJECTIONS, 1960-90

		Proportion of Commodity Export in Value of Total Exports (%)		Commodity Prices in Constant 1981 US$					
				Actual 1/				Projected	
Commodity	Unit	With Petroleum	Without Petroleum	1960-70	1975-80	1981	1982	1985	1990
Petroleum	$/BBL	43.5	0.0	4.5	18.9	34.3	32.8	32.0	37.0
Coffee	¢/KG	10.7	15.2	305.0	424.0	283.0	310.0	262.0	265.0
Cocoa	¢/KG	7.1	10.1	193.0	330.0	208.0	175.0	146.0	145.0
Copper	$/MT	6.0	8.5	3506.0	1898.0	1742.0	1473.0	2330.0	2601.0
Timber (Sapelli)	$/CM	2.6	3.6	134.0	216.0	213.0	174.0	238.0	251.0
Cotton	¢/KG	2.5	3.5	217.0	202.0	187.0	160.0	200.0	215.0
Iron Ore	$/MT	1.6	2.3	51.0	27.8	24.3	25.9	26.5	28.5
Sugar	$/MT	1.6	2.3	252.0	385.0	374.0	189.0	372.0	372.0
Tobacco	$/MT	1.1	1.6	2762.0	2157.0	2350.0	2438.0	2071.0	2110.0
Tea	¢/KG	0.9	1.3	418.0	248.0	202.0	191.0	171.0	184.0
Palm Oil	$/MT	0.8	1.2	754.0	648.0	571.0	443.0	575.0	582.0
Groundnuts	$/MT	0.7	1.0	638.0	635.0	636.0	386.0	567.0	598.0
ALL COMMODITIES		79.1	50.6						
(Weighted price index excluding petroleum)2/				(101)	(100)	(80)	(72)	(80)	(84)

Source: World Bank, EPD Forecasts (Reviewed December 1982) for prices and Accelerated Development In Subsaharan Africa, p. 22 for shares.

Note: 1/ Actuals are averaged over the years for 1960-70 and 1975-80 and are currently estimated for 1982.

2/ This index represents the combined movement in prices of eleven commodities, excluding petroleum, which account for 50.6% of all African exports (other than oil) in 1976-78.

3. <u>Conclusions of Progress Report</u>

There is now evidence that on a wide set of policy issues many African governments are demonstrating considerably more awareness of policy and institutional weaknesses in the conception and implementation of their development programs. Measures have been taken to improve agricultural prices, and to improve the efficiency with which input and output markets operate. Government expenditure programs have reflected both the general shortage of resources and the need to improve the efficiency with which public resources are used.

However, neither the number of countries in which these changes are taking place nor the extent and the speed with which revised programs are being implemented, give any cause for complacency. On the contrary, if the deterioration in economic performance which occurred in most of Sub-Saharan Africa during the 1970s is to be halted and then reversed, the new directions of policy which can be seen and detected represent simply a modest beginning towards what is required. The deterioration in the global economic circumstances and prospects of African countries which has arisen since 1980, makes the need for domestic policy reform even more urgent.

In order to provide additional support for policy reform by African governments, the Bank has already switched both staff resources and financial resources. Increases in country and sector work have been undertaken by the Bank and this work has been adapted in ways which will be of greater assistance to governments in formulating their programs of policy reform. Moreover the pattern of Bank operations has been modified in major respects including structural adjustment lending and other forms of non-project lending to provide increased support for policy and institutional reform.

The priority accorded by the Bank to Africa is clearly reflected in IDA lending which rose from $954 million in FY81 to $1230 million in FY83; the share of Sub-Saharan Africa rose from 27 percent to 37 percent. However, the extent of the additional financial support is constrained by the availability of IDA funds and the needs of other recipients. There also are limits to which IBRD funds can be prudently lent to African countries. In addition, creditworthiness problems experienced by some countries forced a shift from Bank to IDA lending, and the reorientation of the investment program in Nigeria resulted in an unusually small lending program to that country in FY83. Consequently, Bank lending to Sub-Saharan Africa declined in FY83.

The Bank's Africa Report had emphasized that policy reform was unlikely to be implemented and could not be sustained in the absence of increasing flows of concessionary aid. Moreover it was shown that without additional aid, policy reform would have limited impact on the rate of growth of African economies. Given the difficult global external situation which continues to confront African countries, and which seems likely to continue for several years, these conclusions have become of critical importance. Policy reform, without increased donor support, is unlikely to do more than mitigate reductions in per capita incomes which will otherwise result from adverse terms of trade. This is clearly an unattractive prospect. If programs of policy reform which have already begun in some African countries are to be maintained, and if the number of countries embarking on such programs is to be increased significantly, major increases in financial support through concessionary assistance from the donor community are urgently required.

Unfortunately this is an unlikely prospect. Although individual African country experiences varied, for Sub-Saharan Africa as a whole, total ODA commitments fell in 1981 in nominal terms by 8 percent compared with 1980. Within this total, commitments by DAC members fell even more sharply by 11 percent. On a net disbursement basis, all categories of assistance either fell or stagnated in nominal terms. For instance, net disbursements of ODA, which more than doubled from around \$3.5 billion in the mid-1970s to \$8 billion in 1980, remained at this level in 1981.

In 1982, total ODA disbursements to the developing world as a whole increased by 11 percent in real terms. However, the detailed regional and country data are not yet available and it is not possible, therefore, to show what impact this improvement in total disbursements in 1982 had on flows to Africa. The increase in total ODA primarily reflected delayed 1981 payments to multilateral lending institutions. It seems likely that the share going to the least developed countries (LLDCs) has been maintained or even slightly increased. As 26 of the 36 LLDCs are in Africa and as these 26 have been receiving about two-thirds of total ODA to LLDCs, it can be assumed that net disbursements of ODA to the LLDCs in Africa have also increased in 1982. However, it would be premature to interpret the increase as reflecting an improvement in the trend. Certainly the Africa Report's projection of a level of ODA disbursements in current US collars of \$14.7 billion in 1985, reflecting a commitment level of about \$21.5 billion, now seems extremely unrealistic. Yet both the need for a markedly higher level of external assistance and the justification in terms of support for programs of major policy reform have increased since 1981 and are rising.

II. POLICY RESPONSES OF AFRICAN GOVERNMENTS

Major changes in domestic policies are critical if a significant turnaround in growth prospects from Africa is to be achieved. Three areas of policy were considered in the Bank's Africa Report to be of central importance: (i) the development of more appropriate price policies; (ii) improvement in institutions particularly those serving the agricultural sector; and (iii) increased efficiency of resource use in the public sector. Over the past two years, an encouraging start has been made by many African governments in examining and modifying their policies in these areas, and in some countries a rethinking of development strategy is under way. However, the implementation of policy and institutional reform is proving to be extremely slow and difficult for administrative, technical and political reasons. Moreover the impact of reform on production, the balance of payments, and other objectives has hardly begun and has, in many cases, been undermined by falling commodity prices, adverse weather, and internal security problems.

1. Pricing Policies

While there are many aspects to the problem of improving the incentive framework, four issues are of critical importance: first, to create more income-earning opportunities in the tradeable goods sectors (agriculture, industry and energy) as against the service sectors (particularly government employment including civil servants, teachers and the military); second, and related to the first point, to shift the internal terms of trade towards agriculture; third, to permit the structure of the domestic prices of agricultural outputs, of agricultural inputs, and of industrial goods to reflect increasingly the present and prospective structure of international prices or at a minimum to avoid extreme divergences from these prices; and, fourth, to recognize the limited financial resources and administrative capacity of governments and, therefore, the need to focus these on solving a limited and very selective set of production growth and poverty alleviation problems for which market forces alone would be insufficient.

The Bank's Africa Report had concluded that "trade and exchange rate policy is at the heart of the failure to provide adequate incentives for agricultural production and for exports in much of Africa." The cost of earning or saving foreign exchange has a pervasive effect on the economy in modifying the internal terms of trade and, in particular, the balance between income-earning opportunities in agriculture and in industry as against incomes in the non-tradeable sectors. While fiscal measures (taxes, subsidies) and administrative measures can supplement exchange rate policy, they cannot, in practice, counter the negative and pervasive impact of inappropriate pricing of foreign exchange.

Several countries have, in the past few years, recognized the importance of a more active exchange rate policy. The changes which they have introduced have varied. Some governments (e.g., Kenya, Malawi, Madagascar, Mauritius, Zambia and Zimbabwe) have retained a unified rate and have adjusted it periodically whereas others (e.g., Ghana, Uganda, Sierra Leone, Sudan, Somalia) have experimented on a transitional basis with two or more windows. For some countries exchange rate policy is restricted by membership of a currency arrangement (e.g., the CFA Franc Zone) in which case fiscal and other measures have been employed.

As a consequence of the greater willingness of governments to adjust effective exchange rates, more countries have been able to provide increased prices to their farmers. This increase occurs directly for exporters in those cases in which export market prices are reflected directly in producer prices, providing export taxes are not raised or input subsidies reduced to an excessive degree, and providing world prices for exports or for imported inputs do not offset the exchange rate adjustment. Producer prices for foodgrains and other food output (e.g., vegetable oils and livestock) are also influenced by the depreciation of the local currency both directly through import and export price changes and also to the extent that marketing organizations are sensitive to border prices in setting procurement prices for compulsory purchases or in setting floor prices. Many countries have, in fact, significantly increased producer prices for foodstuffs.

However, while changes in exchange rates and in agricultural prices are frequently necessary conditions of policy reform, they are not sufficient. In particular they are ineffective in switching the internal terms of trade to agriculture unless they represent changes not only in nominal terms but also relatively to other prices in the economy. If, for instance, consumers of marketed food supplies -- overwhelmingly in African conditions, urban wage and salary earners -- are fully compensated for the increase in food prices and the prices of imported goods, either through increases in incomes or in the form of increased food subsidies, then little or, perhaps, no improvement in the relative incomes of agricultural producers will occur; changes in nominal prices and incomes will have been eroded away in real terms by inflation. Unfortunately the evidence tends to confirm that this erosion has, in fact, occurred in many countries.

The IMF's 1982 World Economic Outlook reported that: "Real effective exchange rates for currencies of African countries have on average appreciated over the period 1973-81 by 44 percent"(page 122). Although it is noted that "this figure is heavily influenced by the experience of some of the larger African countries (such as Ghana, Sudan, Uganda, Tanzania and Zaire) where relatively high rates of domestic inflation were only partially offset by exchange rate changes, the majority of African currencies," it observes, "experienced some degree of real effective appreciation." Despite a growing recognition more recently of the need to adjust exchange rates, the figures for 32 African countries show that from 1980 to the present the currencies of 12 countries, out of the 32, appreciated in nominal effective terms, and if allowance is made for relative changes in domestic price levels, 19 of the currencies appreciated over the two years. Moreover, in the case of eight of the thirteen currencies which depreciated in real effective terms over the past two years, the depreciation was significantly less than 10 percent and in five cases the depreciation still left the currency appreciated as compared with the mid-1970s.

It is apparent that exchange rate changes have been inadequate in terms of the needs of African economies and have been widely negated by the failure to hold other incomes in check thus leading to an inflationary situation. 1/ This conclusion is particularly worrying in respect of countries such as Kenya, Mauritius, Somalia and Madagascar (see table below), which have been pursuing a relatively active exchange rate policy but where quite large depreciations in nominal effective rates have still left the real effective rate either appreciated or only slightly devalued.

Nominal and Real Effective Exchange Rate Changes

	Nominal Effective Exchange Rate				Real Effective Exchange Rate			
	1977	1980	1981	1982	1977	1980	1981	1982
Kenya	100	98	91	84	100	108	100	100
Mauritius	100	76	73	70	100	100	97	95
Madagascar	100	104	97	78	100	113	122	133
Somalia	100	90	75	58	100	142	153	124

Of course, the situation would be of even greater concern had the devaluations in these countries not taken place. Moreover it must be equally emphasized that for many other countries which have not depreciated their currencies, the appreciation which has occurred is much larger, and therefore represents a much greater barrier to developing an appropriate structure of domestic prices.

The same general conclusion, namely, that governments have had difficulty in ensuring that their greater willingness to change pricing policies have the intended impact on real prices and also on relative income-earning opportunities, emerges from an examination of agricultural pricing policies. Major increases in nominal producer prices, even where they have been larger than increases in input prices, have frequently been less than the cost of living to the farmer (represented by the Consumer Price Index). For instance, between 1980 and 1982, Tanzania increased its producer prices for maize (50%), paddy (50%), wheat (70%) and cotton (25%), yet in real terms (i.e., adjusted by the CPI) all these prices were lower in 1982 than in 1980. A similar pattern emerges for Kenya, Togo, and

1/ This conclusion is also emphasized by U Tun Wai and Paul A. Acquah (IMF) in their paper "IMF Experience with Exchange Rate Adjustment in African Countries" (Paper presented at the World Bank Seminar on Development Policy Issues for Senior African Officials, Oxford, September 1982).

Madagascar. For another group of countries such as Burundi, Cameroon, Ivory Coast, Malawi, Mali, Nigeria, Senegal, Sudan, and Upper Volta, the situation has been more varied. The price of a few agricultural commodities has been raised enough to have a significant impact in real terms (coarse grains in Niger, Upper Volta, and Malawi; paddy in Burundi, Ivory Coast, Liberia, Mali, Niger, and Nigeria; groundnuts in Malawi and Senegal; cotton in Sudan and Nigeria; palm oil in Ivory Coast; rubber in Nigeria); however, prices for many other commodities have fallen in real terms.

In summary, the picture which emerges in relation to pricing policy to provide a more appropriate structure of incentives is that of a greater willingness on the part of governments both to increase agricultural prices and to adjust exchange rates. However, these reforms have been less effective than intended in switching the internal terms of trade to agriculture and, in general, in stimulating the tradeable goods sectors. In part, this has been due to the fall in world prices for agricultural commodities, which has aggravated the problem and placed a particularly heavy burden on exchange rate policy and budgetary policy. In addition, however, the experience demonstrates that policy reform of incentive systems is only likely to be successful if pursued in the context of more comprehensive policy packages. These supportive policy packages have not always been present. They need to include measures which induce a quick-supply response so that aggregate real incomes expand (marketing reform, improved input supply, more efficient transportation), measures which restrain the growth of incomes in the service sectors (particularly the government sector); and, most importantly, measures which increase the flow of external financial support particularly at times in which international commodity prices are extremely low and, therefore, the capacity to import requires augmenting through financial assistance.

This third component of effective policy packages -- i.e., increased external financial support -- is critical. The Bank Report had emphasized very strongly that experience in other developing countries had demonstrated that while exchange rate policy and the development of appropriate agricultural and industrial incentive systems had been effective in stimulating growth and greater balance of payments viability, the formulation and implementation of such measures have taken time, and have required substantial external assistance to support them. This assistance is of particular significance in Africa, firstly, because of the magnitude of the policy changes which are required and, secondly, because of both the low and declining real per capita incomes of the populations including those who lose in the short run from exchange rate depreciation and rising real food prices, namely, the urban consumers.

2. Input Supply and Marketing Services for Agriculture

It was a central theme of the Bank's Africa Report that an improved level and structure of output prices to agricultural producers would only evoke a significant supply response if input supply services and the marketing outlets were improved. Parastatal marketing organizations with monopolistic responsibilities have in many countries become both highly costly and inefficient in providing these services to farmers. In some instances, parallel private markets have developed but these are not always operating legally.

A few governments have recognized the need to address this set of problems. Apart from measures to improve the efficiency of the parastatal marketing agencies, there is now greater willingness to accept the private sector including cooperatives to complement the responsibilities of the parastatals and to provide farmers with alternatives which they can legally use. For instance, responsibilities of marketing parastatals in Togo, Mali, Kenya, Senegal, Tanzania, and Guinea have been significantly curtailed in order to permit a greater role for cooperatives and/or the private sector, and Madagascar is moving in the same direction. These reforms are taking place slowly and in a limited number of countries. The weakness of an indigenous private sector, fear of "exploitation" by private traders, the difficulties involved in establishing autonomous and efficient cooperatives, are often real as well as perceived barriers to more rapid movement in these directions. In many countries agricultural parastatal organizations should eventually play the limited but critical roles of setting and monitoring marketing standards, dealing with famine relief, setting a floor price for producers, and managing import procurement and strategic reserves. Movement towards this situation has begun but has yet to gather momentum.

3. Resource Use in the Public Sector

The deterioration in the internal and external circumstances of African countries has harmed the budgetary situation of African governments. Much more efficient allocation of these limited budgetary resources has become essential if countries are to have any hope of maintaining a minimum level of development momentum -- infrastructure services, education and health services, agricultural extension and research, and so on. Major reviews and revision of public expenditure programs are needed to ensure that existing capacity is more fully utilized and maintained; that investment projects are completed as rapidly as possible and that new ones are only commenced when they are of the highest priority; that, at a minimum, highly costly capital-intensive, and sometimes predominantly prestige projects which might in the 1970s have been marginally justified, are eliminated from public investment budgets even when external financial support has been promised; that subsidies to producers (e.g., fertilizer, interest rate and other input subsidies to agriculture and industry) and to consumers (e.g., food subsidies) be restructured so that they can be targeted on priority production and consumer needs and particularly in ways which stimulate the introduction of new input packages and provide assistance to poverty groups.

There are numerous country examples which reflect this greater attention to the setting of priorities and the programming of expenditure, for example the Ivory Coast, Liberia, Madagascar, Senegal, Sudan, Togo, among others. In Malawi, despite major budgetary constraints, the government has increased expenditure on economic services in agriculture, education and transportation. In Burundi, the internal efficiency of a highly constrained level of education expenditure has been increased through such measures as the progressive abolition of expensive boarding and the frequency of stipends for university students in current terms for the past two years. In Sierra Leone, the pupil:teacher ratio is being increased and in Mali, the education budget has been significantly reallocated away from subsidies for students enrolled in higher education to increased expenditure on basic education to assure wider access. Similarly, in Guinea, the growth of higher education has been restrained and resources reallocated to skilled worker training. Fertilizer subsidies have already been reduced in many countries (see Chapter IV 2(c) below) as part of phased programs which make more sense both in terms of fiscal policy and agricultural policy. In Sudan, major projects such as a new airport and a new seaport have been eliminated from the public investment program in order to concentrate domestic and foreign resources on priorities such as the rehabilitation of the irrigation network and other agricultural capacity, and in the Ivory Coast, Togo, Mali and Mauritius, major reviews of the investment program have been made.

4. Summary

While generalization is dangerous, there is sufficient evidence to suggest that many governments in Africa have begun to reexamine their development strategies. However, the review of experience over the past few years shows that despite widespread improvements in agricultural producer prices and often in exchange rate policies, limited headway has been made in restructuring the incentive structure. Similarly, institutional changes, including changes in the respective roles of the private and public sectors, have been introduced only slowly. Political opposition to change is undoubtedly a major obstacle to more rapid adoption of efficient policies and institutional arrangements but, in addition, administrative, technical, legal and other delays, must be recognized. Governments do not always have the policymaking and analytical capacity to formulate appropriate programs of reform in a systematic framework and to present alternative policy options, some of which might be more politically acceptable even if they are not first-best solutions to problems.

It is, moreover, essential from a political point of view, that the adoption of reform programs should be followed soon after by increases in output and per capita real incomes, and by declines in the rate of inflation. To achieve this requires increased and sustained external financial support for bridging the gap between the adoption of policy reform and its impact on the availability of resources.

III. COUNTRY ECONOMIC AND SECTOR WORK

The policy packages of domestic reform measures and of external assistance, which are required to turn around Africa's development prospects, need to be formulated to meet the unique needs of each country. They require a basis of detailed country and sector specific analysis which must be undertaken primarily within each government. However, in many instances, governments require assistance for this purpose. The Bank, through its own programs of economic and sector work, can provide some of this assistance.

1. Technical Assistance

Extensive use is made by African governments of expatriate technical assistance (80,000 resident non-nationals are estimated to be providing technical assistance to the public service and parastatal bodies in 40 African countries; of these, more than half are teachers). However, the Bank's Africa Report had emphasized the lack of an adequate capacity in many countries for examining policy issues and presenting governments with policy options. For instance, the general issue of improving agricultural incentives subsumes a complex set of interdependent sub-issues covering the structure and level of output prices and of input prices, producer and consumer subsidy policy, stockholding and other policies to deal with harvest variations and with short-run variations in international market conditions, exchange rate policy, roles of public and private marketing agencies, and other aspects influencing farmer income and consumer prices. A comparable range of interrelated issues arises for industrial, energy, and other sectoral policies.

(a) Technical Assistance Loans and Credits

Bank-financed technical assistance over the past three years has been close to $400 million per annum (in commitments) or about 20 percent of Bank lending to Africa. Most of this is for project-related needs but within the total, there has been an increasing use of free-standing technical assistance loans/credits which rose from an average of 3 operations per year and $10 million per annum during FY77 to FY80 to 10 country operations and $105 million in FY81, and 8 operations and $57 million in FY82. This increase in both number of countries and amount of lending during 1981 and 1982 for free-standing technical assistance operations reflects overwhelmingly an increase in Bank-financed assistance for policy analysis and advisory work at the macro and sector levels. These operations have frequently been associated with SAL operations (Kenya, Senegal, Ivory Coast, Mauritius, Togo and Malawi) or with the preparation and/or implementation of other economy-wide or sector-wide operations (Sudan, Zaire, Liberia, Madagascar, Tanzania, Uganda, Mali and Rwanda).

Three typical examples are the technical assistance credits to Kenya (FY80), Tanzania (FY81) and Madagascar (FY82). Part of the Kenya credit was used to finance studies and training which were required to support the export promotion component of the government program of structural adjustment. In Madagascar, the objectives were to rehabilitate specific aspects of the agricultural sector and to initiate a process of long-term agricultural reform through institution-building and a redefinition of sector investment programs and policies. Specifically a three-year investment plan for the agriculture sector was to be prepared, as well as an action program for the rice subsector and management improvement programs for selected parastatals. In the case of Tanzania, arrangements were made by which the Bank financed an international advisory team and a related secretariat, which had been recruited by the Government to provide it with a comprehensive review and advice on the country's development program.

(b) Bilateral Technical Assistance

Other donors have so far provided relatively little technical assistance for policy analysis, although they continue to provide large numbers of advisors in other capacities (e.g., project advisors, technicians, budget and tax specialists). However, Mauritius has actively sought assistance for this purpose and in countries such as Ivory Coast and Senegal bilaterally financed teams of technical assistants continue to play a major role in policy analysis in the central ministries.

(c) Bank-Seconded Technical Assistants

The Bank has introduced a special program for seconding Bank staff to advisory positions in IDA-only countries in FY83. Twenty staff positions and ten staff years have been allocated under the budget for this purpose although the program extends beyond African IDA countries. By end FY83 it is expected that eight of these arrangements will have been approved for Africa although only two staff members will, by then, have taken up their assignments -- Senegal (Economic Advisor) and Djibouti (Coordinator for Donor Conference). Three of the other six assignments will be as economic advisors to the Governments of Central African Republic, Equatorial Guinea, and Togo. The three other assignments are to the Gambia (Agricultural Policy and Planning Advisor), Sierra Leone (Economic Advisor), and Benin (Industrial Policy Advisor). These eight assignments together with assignments under the program to two non-African countries account for ten of the twenty staff positions which were established for this purpose. An additional three positions have been funded already in the FY84 budget.

2. Bank Country Economic and Sector Work (CESW) on Africa

In recognition of the specific needs of African countries for assistance, the Bank has both increased the volume of CESW in the two Africa Regions and modified its content and form. Increasing emphasis is being given to the analysis of policy issues, and to the design and implementation of the conclusions in a form which is appropriate for decision-makers in government and other agencies.

(a) Magnitude of CESW on Africa

The share of Bankwide CESW allocated to African countries has grown rapidly. This trend began before the publication of the Bank's Africa Report but it has subsequently gathered momentum. Between FY79-81 and FY82-84, CESW for Africa is expected to grow at an average annual rate of almost 15 percent (from 74 staff-years in FY79-81 to 112 staff-years in FY82-84), almost double the Bankwide growth of CESW of 8 percent. Consequently, over half (54 percent) of the Bankwide increase in CESW is expected to be on Africa.

(b) Country Allocation of CESW

The country allocation of CESW has been influenced by the need to commence CESW in countries which have either recently become members of the Bank (Zimbabwe, Guinea Bissau, Seychelles, Comoros, Djibouti) or to strengthen CESW where it had lapsed to low levels (Ethiopia, Ghana, Uganda, Chad, Equatorial Guinea, Madagascar, Benin, Zaire). In addition, however, CESW resources have been channelled increasingly toward countries where the prospects for policy change seemed to be most favorable and where the policy issues have been the major feature in the design of Bank operations. This is most clearly seen in countries in which SAL or other non-project operations have been commenced or are in prospect but where the previous level of CESW on which to base these operations had been inadequate (Sudan, Niger, Benin, Liberia, Nigeria, Congo, Togo, Madagascar). For many years, the level of CESW has been relatively high in several other countries in which the Bank has SALs or other non-project operations, and this is being maintained (Kenya, Malawi, Mauritius, Tanzania, Cameroon, Ivory Coast, Senegal). The most difficult problem of country allocation of CESW arises in those countries where major policy reform has just begun or is yet to get started and where it is possible that increased Bank CESW could encourage reform measures to be speeded up or introduced. CESW in these countries has been maintained at a fairly high level relative to the volume of lending operations (e.g., Ghana, Zaire, Zambia).

The link of increased CESW to operations is also seen in some countries where SAL-like operations are not contemplated. An example of this has been the work program currently under way in Upper Volta, which seeks to analyze long-term issues of strategy in the health and education sectors and examine how the Government can provide services to a broader cross-section of the population within its very limited prospective budgetary means and within those of the international community.

(c) Composition of CESW by Subject and Sector

While priorities for CESW within each country are determined by individual country considerations, these priorities have tended to be closely in line with the areas highlighted in the Bank's Africa Report. Three areas have taken increasing shares in recent years: (i) management of development, including work on incentive systems and pricing, development planning, management and administration; (ii) management of the public enterprise sector; and (iii) resource mobilization.

Sector work has expanded more rapidly than country economic work (at an average annual rate of 18 percent compared to 11 percent for economic work), with agriculture and industry sectors being given highest priority. First priority in these two sectors has been given to the analysis of incentive systems and the study of reforms in pricing and subsidization policies. The share of these two sectors in total sector-work staff time has been maintained at 46 percent despite the need to accommodate the important additional programs of work on energy.

The theme emphasized by the Bank's Africa Study was greater efficiency in resource use, whether in the management of the public sector, or in agricultural and industrial policies, or in the social services. The pursuit of these themes at the country level through CESW has led to a relative reduction in work directly relating to the analysis of some longer-term issues such as population growth and those aspects of the poverty problem which are not directly linked to efficiency issues -- e.g., regional development. However, the absolute level of staff time devoted to these issues has increased.

(d) Form of CESW

The greater emphasis now given to the analysis of policy issues, policy formulation and to the timely presentation of policy conclusions in an appropriate form for decision-makers shows up in the expected reduction from 44 percent in FY79-81 to 24 percent in FY82-84 of economic work devoted to updating economic reports, basic economic reports (the last one of which was produced over two years ago), and general sector surveys. This decline has been accompanied by a much greater use of reports which focus on the analysis of a specific policy area and of more targeted reporting methods. These include the wider use of reports for limited distribution to the government itself and other agencies within the country and of aide memoires, often prepared in the field and left with mission counterparts or key policymakers for use in their own policy analysis and decision-making. In the case of countries where there have been structural adjustment lending programs and other non-project operations, the preparation of informal reports, papers and aide memoires, has been particularly common -- indeed, it is hard to imagine how a dialogue on current policy issues in the context of a specific and monitorable action-oriented adjustment program could be maintained if formal economic reports, which necessarily have a long gestation period, were the principal vehicle for presenting Bank views.

3. Bank Research

The World Bank allocated about $16.5 million or 2.9 percent of its administrative budget to research in FY83. Within this total, it is not possible to ascertain the proportion benefiting Africa since many projects are cross-country in nature. In any case research results may be transferable across frontiers and the choice of country or countries for testing of research hypotheses is more likely to reflect data availability than any other factor. Nonetheless, there has been a conscious effort to guide new research into topics of concern to a broad spectrum of African countries and to undertake fieldwork in Africa when possible. A small study is reviewing the experience of Sub-Saharan Africa over the past 20 years to identify the types of domestic policies and external factors that can be expected to have the greatest effect on national income growth. A project on the economic consequences of the coffee boom in East Africa will trace the effect of macro policy changes to the micro level, drawing lessons for government policy and the form of external assistance. A study in Mali is measuring rural demand for health and schooling services so as to draw conclusions about the potential for recurrent cost financing of these services through, in particular, user fees which may help to broaden their availability. A study in Kenya and Tanzania examined the adaptation of East African labor markets to the rapidly growing supply of educated workers. A global study which examines the nature and sources of production-cost changes over time in infant industries includes Nigeria in the sample of countries which the research will cover.

A concerted effort has now commenced to reorient the Bank's research program more directly to important African development issues and to enlist the collaboration of research institutes in African countries in identifying research needs and in conducting the research. A conference to formulate the Bank's program of socio-economic research on Africa is well-advanced in the planning stage. The conference, organized jointly by the Research Committee and the two Bank African Regional Offices, will include staff from African research institutes and from other research centers and universities with a strong background of African research. The conference is expected to produce a multi-year agenda for research on Africa, which the Bank can assist in implementing and financing.

IV. LEVEL AND PATTERN OF BANK OPERATIONS

1. Level of Commitments

(a) IBRD and IDA

When the Africa Report was submitted to the Governors and to the Development Committee, Bank management proposed that Africa should be a priority area for the allocation of IDA/IBRD funds during the 1980s. It was agreed that no less than 30 percent of IDA funds should be allocated to African countries in FY82-86 and that IBRD lending to Africa should be the maximum consistent with creditworthiness considerations. Support from the International Finance Corporation for private sector development in Africa was also expected to grow.

Despite the additional claims on limited and uncertain IDA funding and despite the particular difficulties which several African countries have had in maintaining their creditworthiness for IBRD resources, important progress has been made towards the objective of increasing Africa's share of commitment; viz.:

IBRD/IDA Lending to Sub-Saharan Africa
(US$ million)

	FY1981	FY1982	FY1983
Sub-Saharan Africa			
IDA	954	840	1231
Bank	859	962	563
Total	1813	1802	1794
Share of total IDA (%)	27	31	37
Share of total Bank (%)	10	9	5
Total Net Disbursements to Sub-Saharan Africa	748	994	1143

IDA lending to Sub-Saharan Africa rose from a level of $950 million in both FY80 and FY81 to over $1.2 billion in FY83, while the share of IDA going to Sub-Saharan Africa rose from 27 percent to 37 percent. This, despite a severe shortage of IDA resources during this period affecting all least developed countries and other IDA borrowers. While Bank lending to Sub-Saharan Africa also rose in FY82, it declined in FY83 due principally to a decline in lending to Nigeria which, because of its extreme economic difficulties, substantially reduced its investment program. Creditworthiness problems in other countries, such as Liberia, also contributed to the decline. Bank lending is expected to increase again in FY84.

Under present Bank programs for the next five years (FY83-87), commitments to Africa are planned to grow at 5 percent per annum in real terms compared with a 2.9 percent growth in IBRD/IDA lending as a whole. This will not, however, be possible, given the limited creditworthiness of African countries for IBRD lending, unless IDA funding is considerably increased over that available in the last two years.

Eligibility for IBRD resources is based on a judgment on the country's long-term ability to cover prospective external debt service payments. Few African countries meet this criterion and currently only nine can borrow exclusively on IBRD terms (Botswana, Cameroon, Congo, Ivory Coast, Mauritius, Nigeria, Seychelles, Swaziland and Zimbabwe). Four others borrow a blend of IBRD and IDA funds (Kenya, Senegal, Zambia and Malawi).

Eligibility for IBRD borrowing and its level for each country is under continuous review. A number of countries have become eligible for IBRD assistance in recent years. For instance, the success of Malawi's export-oriented agricultural development policies during the 1970s led to the judgment that it was creditworthy for a limited amount of IBRD borrowing from the mid-1970s onwards, despite its very low per capita income. Cameroon's oil revenues and sound economic management also were judged to have strengthened the country's creditworthiness and this enabled a move towards an all-IBRD program in FY82. In the case of some other countries, concerns about country policies and prospects led to their ceasing to be judged eligible for IBRD lending. Tanzania ceased to borrow from IBRD after FY80 primarily because of its inability to maintain its export earnings. Liberia also has ceased to be eligible for IBRD funds for similar reasons.

As regards IDA, modifications to country allocations have been made in order to give greater weight to performance, but the changes have been implemented gradually in order to avoid abrupt effects on lending operations. Among the cases where a substantially increased IDA allocation has been made available are Niger and Sudan. Since the late 1970s, the Government of Niger has begun to address the problems of the country more seriously and IDA has expanded its lending and general support above the previous modest level. In Sudan, the Government's initiatives in tackling major issues in its agricultural sector (cotton exports) and in facing up to its external debt problems have led the Bank in the last year to increase substantially the amounts of its lending. There are contrasting cases of countries where difficulties in implementing restructuring programs have led to reduced IDA allocations. Zambia's development policies particularly in agriculture have, for a long time, been a cause for concern and, as a result, the overall level of Bank lending has been low. Similar concerns about the policy framework and the efficiency of resource use have limited lending to Zaire and Tanzania.

(b) IFC

Even before the publication of the Bank's Africa Report, IFC had commenced special efforts to increase its activities in Sub-Saharan Africa This drive was a major aspect of IFC's First Five-Year Program (FY79-FY83) Actual performance, in terms of number and amount of commitments, is given in the following table:

IFC Projects in Sub-Saharan Africa

	FY79	FY80	FY81	FY82	FY83
1. Sub-Saharan Africa (no.)	10	11	15	13	12
2. IFC Total (no.)	51	58	60	67	58
3. No. 1 as % of No. 2 (%)	20	19	25	19	21
Amount of Commitment (Net) ($ million)					
4. Sub-Saharan Africa	26.5	48.2	82.4	56.5	46.3
(of which Equity)	(4.2)	(3.3)	(4.2)	(4.5)	(3.3)
5. IFC Total	227.5	418.8	436.3	423.7	426.7
6. No. 4 as % of No. 5 (%)	12	12	19	13	11

IFC's Sub-Saharan Africa operations form a little over 10% of IFC net commitments approved (though, being smaller on average, a larger proportion of the number of investments approved - 21%); the rather large percentage (19%) in FY81 is accounted for by two large investments (a fertilizer project in Senegal and a colliery in Zimbabwe).

The environment within which private enterprise operates has not been conducive to undertaking a new investment generally. Within this, falling commodity prices and the impact of structural reforms have discouraged investment in the private sector in Africa. The cost of IFC resources has also reduced demand for IFC funds. Making investment in Africa has been an uphill task, particularly for IFC which relies upon market-oriented investments and private initiative for its business.

On average, IFC's investments in the region have been small in size. Some of these investments have gone into DFCs where they help to support private enterprise which IFC cannot reach directly, in agricultural processing (for example, textiles, wood products, sheanut butter) which help to enhance local value added, and in energy. IFC has also tried to supplement its support to investment by providing equity which is particularly scarce in Africa. Finally, IFC has resorted increasingly to the device of setting up promotion companies to develop viable investment projects.

2. Pattern of Country Lending Programs

The Bank's Africa Report emphasized that donor policies and programs should be modified in ways which would provide maximum support to the reform programs of African governments. The Bank has introduced significant changes in its own programs for this purpose.

(a) Structural Adjustment Lending (SAL)

The Bank's program of SAL operations which was introduced in 1980 is well suited to the needs of certain African countries. These operations are designed to provide quick-disbursing financial assistance over a period of several years in support of comprehensive programs of domestic policy and institutional reform. A SAL program consists of a series of monitorable actions to be taken during a 12-18 month period -- as the first steps of a multi-year program of reform -- with each agreed package of measures supported by a quick-disbursing SAL loan or credit. The SAL process provides a systematic structure within which studies and other requirements for future stages of the reform program can be arranged including appropriate technical assistance. Moreover SAL helps to bring about a better balance between resources available for new projects and those which are available for operation and maintenance of existing projects. This improved balance in public resource use combined with an improved overall policy framework increases the absorptive capacity of the country for project financing, including financing by the Bank, other donors and commercial lenders.

Six African countries (Kenya, Ivory Coast, Malawi, Mauritius, Senegal and Togo) have formulated structural adjustment programs supported by SAL loans and/or credits[1/] representing 14 percent of total IBRD/IDA lending to Africa during FY80-82. Kenya has already received a second SAL loan/credit and Ivory Coast, Malawi and Mauritius are at an advanced stage of negotiating second SALs. Although important components of the action program agreed under the Senegal SAL operation have been implemented, progress with the agricultural component has been very slow. The Bank, therefore, has decided to cancel the outstanding balance, but to continue its support to the Government's program through technical assistance and project lending.

Each of these SAL programs is designed to address the particular needs of the country. However, certain features have been common to most of the programs: the strengthening of the government's policymaking capacity; the level and composition of the public investment program and public resource use more generally; parastatal management; agricultural incentives and marketing arrangements; and trade, industrial and energy policies.

SAL-supported programs need to be implemented in many more than the present six countries. However, it has proven extremely difficult to extend SAL operations beyond a limited number of countries because the policy changes which are required seem unlikely to be implemented. In some cases, this difficulty derives from the need for assistance in formulating structural adjustment programs and strengthening the administrative capacity to implement these programs. The Bank has assisted in overcoming these constraints through both its own economic work and the provision of technical assistance, as discussed in Chapter III(1) above. Nevertheless, the administrative constraints remain a major hurdle to the extensive development of SAL operations in many African countries. In addition, an important barrier to the more extensive development of structural adjustment lending in Africa is political. SALs require that governments be able to sustain reform over a wide range of macro and sectoral policy and institutional issues. In many instances, powerful political interests have developed around existing policies, however inefficient these might be.

1/ There are 15 countries Bankwide (including the six African countries) which have developed SAL-supported programs.

(b) Other Non-Project Operations

Faced with these constraints on economy-wide SAL operations, the Bank has developed operations focussed on the needs of specific sectors or subsectors. Some of these more limited Bank-supported reform programs may later develop into SALs. As in the case of SALs, these operations provide quick-disbursing assistance although usually against a more restricted list of imports.

The rehabilitation credits for Sudan (Agricultural Rehabilitation) are typical of such operations. The major policy reform being supported relates to a limited but important set of sectoral issues but, in addition, certain critical macro issues are also addressed -- e.g., a major revision of the public investment program. The reconstruction credits to Uganda provide similar support in a situation in which there is considerable political uncertainty but in which major policy reforms have been introduced by the government and where quick-disbursing assistance for rehabilitation and operation of existing capacity is of higher priority than assistance for financing new projects.

(c) Operations in the Agricultural Sector

SALs and sector lending, supported by an enlarged program of technical assistance operations, discussed previously, are the most obvious innovations in Bank operations in Africa over the past few years. However, major modifications have also taken place in the design of regular project operations. Although many of these modifications have their origins in the 1970s, their introduction and further development have accelerated in the past two years.

This trend is very clear in respect of Bank operations in the agricultural sector. Much greater emphasis is now given in these operations to such issues as producer pricing and input pricing; the priority need of expenditure on rehabilitation and maintenance rather than on new projects; the administrative constraint on project design and particularly the need for simplification; the long-term need for more effective agricultural research activities in Africa.

Agreement on criteria for determining producer prices including the respective roles of the government and of market forces is now being given greater emphasis in Bank projects particularly in those countries where a SAL or other non-project operation is not addressing the issue. For instance, a project in Mali is being designed to provide incentives to cotton producers in accordance with predetermined production targets consistent with cotton's long-term potential, through increased producer prices, to be supported by a new stabilization fund adequate to compensate for the reduction of input subsidies. These changes are to be achieved in a manner which is consistent with strengthening the financial position of an otherwise sound project agency, meeting the government's need for revenues during the reform period and restricting the role of a costly and inefficient parastatal. These combined objectives are achieved through using IDA lending to finance non-incremental recurrent costs as well as capital expenditures.

In a number of other operations the Bank has supported the phasing down or elimination of input subsidies which represent in most countries an inefficient and unsustainable form of government expenditure for increasing agricultural output. In some instances, this has been done through special fertilizer import loans, with the Bank agreeing to finance non-incremental input requirements in support of commitments to phase out subsidies. For instance, in Benin, subisidies were reduced immediately from 80 percent to 40 percent and will be phased out entirely over the project period. In Upper Volta, they are expected to be phased out completely in a program supported by the Bank. In Madagascar, both a planned rice intensification project (to be financed by IFAD but appraised by the Bank) and a cotton project provide for the reduction of input subsidies.

The need for a greater focus on rehabilitation and maintenance of existing assets is widely recognized. This is particularly important in irrigation where the heavy investment of the 1970s was largely offset by the physical depreciation of existing facilities. Bank operations are reflecting this priority. The White Nile and the Blue Nile Irrigation projects and the Gezira project in the Sudan are projects to rehabilitate existing assets, to strengthen the incentives for maintenance, and to build the institutional capacity for maintenance operations. In Somalia, the Bank is assessing possible rehabilitation projects in the run-down Juba and Schebeli irrigated area with a view to determining the most efficient irrigation alternatives. Similarly efforts are now being made to put together a multi-donor rehabilitation package for the oldest and largest irrigation scheme in West Africa, the Office du Niger in Mali, based partly on proposals stemming from an Engineering Credit made in the 1970s but which were delayed in implementation until the required institutional reforms were broadly agreed to. In Senegal, the Bank's involvement in the development of the Senegal valley will be almost entirely focussed on rehabilitating infrastructure linked also to higher producer prices for rice and greater autonomy and efficiency of the parastatal in charge of medium and small irrigation. Other countries where rehabilitation is prominent in Bank operations are Madagascar, Tanzania, Ghana and Zaire.

Simplification of project design has received considerable attention by the Bank and was already well under way at the time the Bank's Africa Report was published. Projects involving several sectors and implementing agencies which present formidable problems of coordination were launched in large numbers during the 1970s. By the end of the decade, as the first generation of these projects neared completion, it became clear that such projects had to be greatly simplified. Kenya IADP, one of the largest multi-sector projects, is now being completely restructured since it became apparent that for managerial and budgetary reasons it could not be implemented as originally conceived. Another example of project simplification is the recently appraised Gezira Rehabilitation Project, where increases in output are to be achieved through existing production techniques. This approach contrasts with the Rahad project which was initiated ten years earlier in which implementation problems arose due to the attempt to introduce technical changes very rapidly.

The Bank's Africa Report emphasized the high priority which governments and donors should give to agricultural research. This is essential if Africa's comparative advantage is to be changed over time so that countries can both diversify out of export products for which market opportunities are poor (e.g., the tropical beverages) and achieve greater but efficient self-sufficiency in basic foodcrops. During the 1970s the Bank had financed agricultural research almost exclusively through applied research components attached to production-oriented projects. Contributions to basic research were made indirectly through CGIAR. While these activities will continue and while a regional approach to research is particularly important for small African countries, a number of free-standing national agricultural research projects are being developed. To date, projects in Senegal and Zimbabwe have been approved but several additional projects are in the pipeline. Of these, those in Cameroon, Ethiopia, Rwanda, Sudan and Zaire are at an advanced stage of processing. All the research projects aim at producing usable research output and at strengthening and coordinating institutions in agricultural research, and the linkage between research and extension. Most of them cover foodcrops as well as selected non-food crops. Direct Bank involvement in research projects is limited by a recognition that other donors often have a comparative advantage in this area.

(d) Operations in Non-Agricultural Sectors

Bank operations in sectors other than agriculture have also reflected the increasing priority which needs to be given in Africa to the allocation of resources to rehabilitation and maintenance activities; to the policy framework within which the projects are to be implemented and operated; to measures to mobilize additional domestic resources; to the role of decentralized agencies including the private sector; and to the simplification of project design.

In the infrastructure sectors, particularly transportation, projects which focus primarily or exclusively on rehabilitation and maintenance have become the rule rather than the exception. In country after country, highways are falling into disrepair, if not disuse, from the combined effect of inadequate funding of maintenance and an inadequate organizational capacity to undertake maintenance operations effectively. Increased attention is also being given to arrangements which are most likely to stimulate the effective use of maintenance funds. For example, in Guinea, Nigeria and Kenya, the government is moving towards a much greater role for the private sector in both road maintenance and construction, and this is being supported by Bank lending.

Low cost programs of operation and maintenance with high benefit/cost ratios are also dominant in Bank urban lending to Africa. There is a more intense focus, firstly, on improved municipal management particularly fiscal management (projects in Mali, Liberia, Nigeria, Tanzania, Burundi, Kenya and Madagascar, all emphasize reforms in the property tax and in other sources of local revenue); secondly, on the balance between recurrent expenditure needs and the financing of new projects (e.g., the reshaping of projects in the pipeline in Ghana, Liberia, Tanzania, Guinea and Nigeria, to the point when they are primarily focussed on maintenance of local infrastructure and equipment); and, thirdly, on strengthening of management capacity in smaller towns as well as the capital city (Kenya, Mali). Within the highly constrained budgets for new projects, the lowering of housing and other standards of provision of services to levels which are replicable is a primary emphasis (e.g., Ivory Coast, Kenya and Botswana). A further feature of urban operations is the increasing importance being given to the total investment program for housing -- i.e., both private and public. In Zimbabwe, the Bank is proposing to lend to building societies for financing private housing. In the Ivory Coast, basic reforms of housing policy are to be adopted in the SAL II program which provide for major reductions in subsidies, sale of government-owned units to private owners and a shift from the public sector to the private sector in house construction. A housing loan is under preparation to implement these reforms. A similar approach is being implemented in Malawi.

In SAL countries (Ivory Coast, Senegal, Mauritius, Kenya), the reform of industrial policy has been a central feature of the agreed program and this has been further supported through DFC operations. In Zimbabwe, the development of industrial exports has been given specific support. Other operations in the industrial sector have continued to emphasize institution-building and to focus on the financing of small- and medium-size enterprises. However, the deteriorated overall economic situation in almost all countries has meant that financial intermediaries and manufacturing enterprises have been in financial difficulties even when, in other respects, they are efficient organizations. In these circumstances the financing of new industrial projects and of new DFC activities has been of lower priority than providing financial support for existing operations. Consequently the Bank's industrial lending has given greater emphasis to the provision of working capital and to the financing of industrial inputs and spare parts.

In the human resource sectors -- population, health and education -- the Bank has increased the emphasis in its projects on policy questions. Consistent with the Report, there is greater emphasis on cost and on cost recovery in the provision of services and on the balance of expenditure within each sector. These issues have been taken up more systematically in recent sector work and the link with operations is then either through SAL lending (e.g., Ivory Coast, Kenya, Malawi and Mauritius) or through lending which focusses heavily on these issues (e.g., Senegal, Liberia, Mali, Upper Volta and Comoros).

For instance, in Senegal, preparation of the Rural Health project led to a reassessment of the needs of the pharmaceutical sector with a view toward developing a national drug policy which strengthens the role of both the private and public sectors. It has been agreed that measures would be taken to allow private non-profit organizations, including community-level primary health care associations, to procure drugs directly from private domestic manufacturers, and to induce domestic pharmaceutical manufactures to enlarge their production range and distribution capability.

In Mali, project preparation is helping to develop a planning capability in the Ministry of Public Health and Social Affairs which will focus on redesigning the primary health care component with a view toward sharply curtailing incremental recurrent costs; limiting outreach to only about 50 percent of the population within access to and supervision by service providers; continuing to make village-level primary health care to be experimental and focussed on self-care, health education and prevention to a greater degree than curative services; and requiring payment of drugs for all out-patient services, and the gradual introduction of par ial cost recovery in health centers. The Mali project will also improve the efficiency of the pharmaceutical system and place greater reliance on NGOs.

In addition, the Bank is reviewing factors which affect human fertility in Africa (family planning efforts, government attitudes to population growth) as well as the economic consequences of continued high fertility. Based on the review, a strategy for expanded lending and new approaches towards reducing African fertility will be developed.

(e) IFC Program

IFC foresees that the environment in Africa will continue to remain difficult, and it will need to make special efforts to support and promote investment in the private sector in Africa. IFC looks to a healthy market-oriented system to further investment opportunities and supports the Bank's efforts at structural reform in these countries. IFC welcomes particularly the emphasis within the Bank on increasing incomes in Africa through efforts to broaden agricultural production as a means of expanding domestic markets for goods.

Within this context, IFC proposes during the next five years to take the following initiatives to promote investment opportunities in Africa:

- Examine the possibility of setting up a project development facility which will identify and develop viable project opportunities.

- Invest in promotion companies which help bring investment opportunities rapidly to fruition;

- Identify instruments, particularly in the financial sector, which will initiate and support investment projects which IFC cannot reach directly; and, finally,

- Take equity and near-equity positions in project financing to provide to African enterprise support in the form most needed by it.

IFC's proposed investment program for FY84-FY88 will incorporate these initiatives and provide for a corresponding increase in investments in the Region.

3. Collaboration with the IMF and Aid Coordination

(a) IMF

Several of the critical domestic policy issues have been addressed within IMF agreed programs. The policy issues which have been covered in Fund programs include interest rate policy; ceilings on foreign borrowing; public sector deficit, taxation, level of government expenditure and parastatal operations; domestic pricing policies including pricing of agricultural products; import duties and export subsidies; and import liberalization. In some countries (e.g., Ghana, Guinea, and Tanzania) the exchange rate has become so distorted that many other policy reforms (e.g., in agriculture and industry) cannot be pursued without an exchange rate adjustment. In other countries, the need and extent of the required changes in the exchange rate regimes, if neither so urgent nor so dramatic, are nevertheless very important if the wider reform of economic policies is to be achieved. IMF agreements in many countries have included understandings on exchange rate policy (e.g., Sudan, Somalia, Kenya, Malawi, Mauritius, Zambia, Zimbabwe, Zaire, Madagascar).

The coincidence of these elements of IMF programs with the concerns of the Bank is clearly considerable. The need to ensure effective collaboration in handling these issues while maintaining the special responsibilities of each institution has been addressed within the context of the greater emphasis given more generally to Fund-Bank collaboration since 1980. Missions from each institution have often been timed to ensure that they are simultaneously in the field for part of the time, and participation of the staff of one institution in missions of the other is now quite frequent (e.g., Ivory Coast, Liberia, Mali, Mauritius, Senegal, Sudan, Somalia, Togo, Zaire, Zambia). Regular staff consultations at all levels take place in headquarters and procedures are in place to resolve differences in analysis and judgment in order to ensure in particular that conflicting advice and policy requirements to governments are avoided. A three-day "retreat" for senior and middle-level managers and advisors of the Africa Departments in the Fund and Bank was held in May of this year to review areas of collaboration which have raised difficulties and to agree on how these should be handled.

(b) Aid Coordination

Bank collaboration with other development institutions has also been intensified during the last two to three years. Aid coordination, both within recipient countries and among major financing agencies, has been recognized as increasingly important to ensure the more fruitful matching of new aid commitments and reprogramming of past assistance to the special requirements of adjustment programs in Africa.

Two new Consultative Groups were formed during 1982, for Madagascar and Somalia. Innovations were also introduced into the proceedings of existing Groups. The Uganda meeting in May 1982 was followed by a briefing session for commercial banks, which had received much of the documentation circulated to governments for the Consultative Group meeting.

The Sudan Consultative Group meeting in January 1983 was the culmination of particularly intensive consultations involving the Bank, the IMF, the Paris Club and Sudan's major commercial creditors. The Government's program will be supported by the use of IMF resources, by the World Bank and by an increase in other donor assistance commitments which, together with assistance in the form of debt relief, represent an increase of over 50 percent in commitments compared with recent years. Moreover a large proportion of these commitments will be quick-disbursing. This will be achieved to a significant extent by donors switching their programs away from financial support for projects which, in the present Sudanese resource situation, were no longer justified. In this way, donor programs have been modified to reflect the priorities for the use of public resources agreed with the Government in its reform program. In addition, commercial banks have agreed to take a medium-term view of the external debt problem of the Sudanese economy and to modify their re-scheduling and further lending arrangements accordingly.

The Bank has recently participated in five UNDP-sponsored donors' conferences for Cape Verde, Djibouti, Equatorial Guinea, Mali and Benin, and has begun a more active involvement in the work of the Club du Sahel. In addition, the Bank is a member of the coordinating groups for formulating EEC support for a food strategy program in Kenya. More widely the UNDP has also developed or introduced in-country coordination channels such as monthly meetings of donor representatives. Project-related cofinancing meetings have also become more common, especially in preparing large projects, such as recent hydro-electric ventures in Kenya, Tanzania and Ivory Coast. Donor meetings have been called to address specific subjects, such as the agricultural prospects of Zaire and Senegal's public investment program.

These aid coordination efforts by the Bank are necessarily staff-intensive. However, while there are many difficulties involved in achieving effective aid coordination, the benefits of regular exchanges of information and harmonization of approaches among financing agencies are widely recognized. Efforts to avoid unnecessary projects, to convert project lending to non-project assistance, and to secure higher levels of local and recurrent cost financing for African governments must be continued. The Bank's Africa Report concentrated attention among many donors and recipient administrations on the need for better operation and maintenance of existing capital facilities and the desirability of substantial import financing linked to basic institutional and policy reform. These themes have been taken up time and again over the last two years, and have become the almost automatic agenda of aid coordination meetings during this period. Moreover they are issues which require continuous dialogue between donors and government. To assist in this process the Bank has expanded its resident staff. There are now 21 countries in Africa in which the Bank has a resident office as compared with 14 in 1980.

V. BASIC CONSTRAINTS ON DEVELOPMENT

The immediate and continuing economic crisis in Africa is overwhelmingly a crisis deriving from a situation in which individual producers and national economies are performing well within their present production potentials. It is a crisis which has arisen primarily from the widespread adoption of structures of prices and incomes which have provided inappropriate incentives to producers. In particular inadequate incentives have been provided to agricultural producers and this has been aggravated by the development of costly and inefficient marketing systems for both inputs and outputs. Even within the basic constraints to development, therefore, very significant increases in production are possible.

But merely halting the decline in per capita incomes, or even modestly reversing the decline, is not enough. Increased attention must also be given to determining what is necessary to place the African countries on a rapid growth path by the end of the 1980s and subsequently. Beyond the immediate economic crisis, more basic constraints to rapid development exist -- population growth; fundamental structural imbalances resulting from acquired patterns of private and public consumption and from the inappropriateness of technologies which have been adopted; availability of agricultural packages to meet Africa's unique agronomic and sociological needs; the supply of educated and skilled people. Although significant increases in production are possible within the limits imposed by these underlying constraints, their existence both aggravates the crisis and makes its solution more difficult. Thus, programs to deal with the immediate crisis must be supplemented by programs which address these basic issues. Now is the appropriate time to begin to analyze the problems and to formulate these policies and programs of action.

1. Population Growth

The first and foremost of the constraints to long-term development is the rapid rise in population. The Lagos Plan of Action expressed concern on this issue 1/ and the Economic Commission for Africa, in its preliminary perspective study (April 1983), has emphasized the adverse impact of the present rate of growth of population on the "efforts to achieve rapid socio-economic development" in Africa. 2/

The major problem is the threat of severely diminishing returns to labor and of growing unemployment. The dangers posed by rapidly increasing ratios of population to land and water resources are clear. Cultivation and grazing activities extend to previously sub-marginal land, and the dangers of deforestation and desertification are frequently present. Even in those countries in which uncultivated and ungrazed land appears to be abundant,

1/ *Op. cit.* para. 353.

2/ *Op. cit.* para. 39.

the costs of bringing that land into productive use are likely to increase sharply as populations increase. The pressures on agricultural land lead to increased migration to towns where expenditure on infrastructure is both extremely high but typically grossly inadequate. The impact of population growth can be seen at all levels. At the household level it can be seen where the attempts to improve the nutrition standards, the clothing, the levels of housing, health and education of family members are frustrated by increasing family size. Similarly, it can be seen in government budgets where limited revenues are inadequate for increasing the proportion of the population covered by public education, health and other services quite apart from the inability to increase the quality of such services.

Reduction in fertility is, therefore, crucial to long-term development and becomes increasingly urgent as the expansion of health services will continue to reduce mortality rates. The reduction in fertility cannot await the "natural demographic transition" which emerges in a lagged manner from development itself -- through increased education, health and urbanization. The reduction in fertility must be hastened through a clearer recognition of the issue at the political level, information programs so the problem will be more widely understood and popular attitudes changed, and through much greater priority to the necessary health, nutrition and education services. These actions must be supported by improved health care and education -- especially female education -- in rural areas; expanded maternal and child care; and provision of family planning information and services.

2. Human Resource Development

Improvements in levels of education, skill development, and health, are required not only as desirable objectives of development but also as prior conditions for development. Healthier and more educated people are more productive than those denied these services. Despite important achievements in these areas, there are still major gaps between most African countries and most other parts of the developing world in terms of literacy, life expectancy, and availability of skilled labour.

In the crisis situations confronting African governments, education, training and health programs are continuously in danger of becoming the residual legatees of both resources and of attention by policymakers. This danger is aggravated when these programs have high unit costs and are poorly designed and targeted in terms of the need of the economy and of the disadvantaged members of the population. More attention needs, therefore, to be devoted to formulating cost-effective and replicable delivery systems and to generating additional sources of revenue to supplement those of the government budget.

3. Agricultural Research

Even within the present state of technical knowledge, improved incentives and marketing arrangements would permit very large increases in agricultural output. However, for the longer term, increased output will depend on the development of effective technical packages, pest and disease control and developments in animal husbandry. The particular problems raised by Africa's natural conditions of soil and rainfall as well as the specific socio-economic characteristics of African agriculture will require significantly greater efforts to adopt technical recommendations emerging from international research institutions. This applies particularly to short season drought-resistant cereal crops.

In a situation of budgetary stringency and of immediate crisis, expenditure on research having a possible but uncertain payoff ten years or more in the future is frequently seen as dispensable. This danger is increased when research programs are manifestly weak and unfocussed. It is, therefore, essential that these programs be formulated and implemented in ways which will enable them to contribute more effectively to the process of development. This problem extends beyond agriculture to the much wider question of technological innovation in African economies.

4. Structural Constraints

To a much greater extent than other parts of the developing world, Africa has acquired major structural constraints to its rapid development. Both the technologies which it has adopted in industry, agriculture and energy, and the pattern of consumption of its people and of its governments are very highly import-intensive. On the other hand, except for certain oil and non-oil mineral producing countries, the prospective foreign exchange earning capacity of Africa is limited. International market opportunities for most of Africa's agricultural products are not buoyant and high labor costs combined with low productivity in manufacturing industry is likely to limit the rapid growth of non-traditional exports.

It is, therefore, difficult for exports on their own to provide the long-term engine to growth for most of Africa. This in no way weakens the need for policies which stimulate export earnings particularly from the traditional major export sectors (coffee, tea, cocoa, rubber, vegetable oils). On the contrary, the lack of major alternative foreign exchange earning opportunities reinforces the need for Africa to recognize its comparative advantage in most of these exports and to regain a much larger share of the international market for them. The policies which are required to achieve this objective were a central feature of the Bank's Africa Report to deal with the immediate crisis in Africa but they also require to be sustained and developed further as part of the long-term growth needs of African economies.

In addition, however, in the long run, technological change and changes in the pattern of consumption can and should be stimulated in order to reduce the import-intensity of economic growth. The preliminary perspective study of the Economic Commission for Africa summarizes this need as follows: "Unless sound and efficient import-substitution policies are implemented and exports diversified in terms of both products and markets, the projected historical growth of GDP might not materialize."1/

1/ *Op. cit.* para. 116.

This has already begun to take place in the energy sector where the increase in oil prices over the past decade has not only made increased import-substitution for oil importing countries more desirable from an efficiency point of view but has also stimulated the search for new energy sources and technologies which will further the process of import-substitution in an efficient manner. A comparable problem confronts Africa in the agricultural and industrial sectors.

The general issue which needs to be addressed is how, in the longer run, this "efficient import-substitution" can be achieved. What changes in policies and programs are required to bring about the reduced import-intensity of personal and public consumption and of the input requirements of industry and agriculture? How can inefficient import-substitution, which aggravates the balance of payments constraint rather than easing it, be avoided? What changes in the incentive framework (protection, minimum wages, prices) are necessary to foster industrial production? What support can governments provide, and through what channels, to stimulate entrepreneurial activity? Is a program of research and development of appropriate technologies and outputs required for industry of the type that exists for energy and for agriculture? If so, how can it be made operationally effective? What is the role of the informal sector of industry and how can it be stimulated while maintaining its greater dependence on domestic inputs?

These are just some of the questions which must be addressed if the programs to handle the immediate and continuing crisis in Africa are also to ease the basic constraints on development in Africa. They are also the questions which are raised if the long-term objectives for Africa as expressed in the Lagos Plan of Action are to be achieved. The long term is simply a series of short terms. Thus each short-term program must not only address the issues raised by the immediate crisis but also contribute as much as possible to the longer-term needs. Furthermore it must be hoped that as more and more countries might emerge from their present preoccupation with crisis management, they will devote increased attention to the issues which are critical to African development in the longer term.