Box 30

SUB-SAHARAN AFRICA'S ECONOMIC MALAISE: SOME QUESTIONS AND ANSWERS

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It has become fashionable to speak of sub-Saharan Africa as being in the grip of an economic crisis. A substantial volume of writing and a multi-faceted, often heated, debate has built up over 1981-83 about causes of and cures for that crisis.

However, much of the debate, and of the writing, operates at a very high level of generalisation and at some considerable remove from concrete country experiences. In the first place they seek to generalise about sub-Saharan Africa as a whole, an approach which has a high cost in submerging differences. Even more seriously they often start from normative positions -- e.g. pro-private enterprise or anti-devaluation -- and use empirical data selectively in ways more likely to confirm the initial supposition than to shed light on its strengths and weaknesses. This is a particularly easy weakness into which to fall because in sub-Saharan Africa much of the data is extremely bad. For example variations between +2 per cent and +4 per cent or even -4 per cent and +2 per cent for estimates of agricultural growth in the same country over the same period are not unknown. Nor, in such cases, is it an easy matter to decide which series is "least bad".

As a result, there have tended to be dialogues of the deaf and an excessive concentration on specific themes wrenched out of the overall economic context. The selection of topics sometimes seems to relate to ease of discussion in general terms as much as to intrinsic merit. Prices are important and easy to analyse at a high level of generality. Transport and storage bottlenecks and gaps are just as important but little can be said except in concrete contexts. Therefore, general studies tend to list them and pass on, but to analyse and discuss prices in general terms at great length. Subsequent case studies at country level also often concentrate on macro-monetary issues and give only limited attention to micro and sectoral "real" constraints or obstacles. This process has polarised positions and, in doing so, has reduced both the growth of factual knowledge and the ability to devise operational programmes, either domestically or in conjunction with such external bodies as the World Bank and IMF.

This overview of the current and recent sub-Saharan economic scene makes no claim to definitiveness, to a detailed analytical exposition or to providing its own empirical justification. What it does attempt to do is to set out a number of the key questions about sub-Saharan African economies and their performance and to do so in a non-polemic and readily comprehensible way. Within this approach the complexity and inter-relationships of issues and policies are stressed, as is the very substantial diversity of experience among sub-Saharan economies.

The picture which emerges is a good deal more complex than the hard-line advocates and opponents of particular strategies and policies appear to assume. While both the present situation and short term prospects are -- with a handful of exceptions -- far from bright, the available data does not support either the assertion that the 1970s were a decade of unrelieved failure or a conviction that the economic future of Africa -- and more important, of Africans -- is veering unrestrainably and irrevocably towards disintegration. If the review of issues and of data which follows helps provide a foundation for research on elucidating the contextual and structural weaknesses underlying sub-Saharan Africa's unusally poor economic performance over 1980-84, it will have served its primary purpose. If such a review can also serve to clarify and assist that dialogue, the purpose of which is to procure action to correct such weaknesses, so much the better.

Did all sub-Saharan African economies have a bad record throughout the 1970s?

No. The decade can pretty clearly be divided into two periods. Over 1970-75, sub-Saharan Africa as a region had growth rates below the LDC average. Over 1976-79 the sub-Saharan annual average (at about 5 per cent) was of the same magnitude as the LDC average. Over the decade as a whole, according to data available from UNCTAD, the sub-Saharan average was below the LDC average, but that had also been true of the 1960s. In the 1980s sub-Saharan Africa -- like Latin America -- has had very low or negative growth.

Within sub-Saharan Africa results varied widely. There were countries of chronically poor economic performance, e.g. Ghana, Sierra Leone, Sudan, Madagascar, Zaire. Other countries stagnated, e.g. Senegal, Benin, Burkina Faso. Civil war, external intervention and domestic strife lowered growth rates (or caused absolute declines) in Uganda, Chad, Rhodesia (as it was then), Angola, Mozambique, Central African Republic. Very poor mineral prices from 1975 onwards hit several economies very hard, notably those of Mauritania and Zambia. However, many countries maintained over most of the decade annual growth rates of the order of 5 per cent or above, e.g. Botswana, Cameroon, Ivory Coast, Kenya, Malawi, Nigeria, Swaziland, Tanzania.

The main cause of economic success cannot be uniformly ascribed either to the availability of resources, or to the chosen economic strategy. Policies on such issues as distribution, rural/urban balance, the role of state enterprise, etc. varied widely. However, all the successes sought to achieve or to maintain positive above-the-line budgetary balances and -- with less uniformity of results -- to avoid severely overvalued exchange rates.

Why have results, at least since 1979, been almost uniformly bad? Have sub-Saharan governments grossly mishandled their responses to recession?

Of all regions, sub-Saharan Africa has been hit hardest by the 1979-83 recession. Deterioration in terms of trade of the order of 33 per cent to 50 per cent between 1976 and 1982 has been common. A majority of countries have also suffered from severe droughts.

Many of those conditions prevailed in 1973-74 as well. What was notable then was the speed and relative success of a large number of adjustment programmes leading to good performances between 1976 and 1979.

The experience between 1979 and 1983 has been very different for a number of reasons. First, governments believed 1979-80 would have an impact on the global economy like 1973-74 -- a sharp shock, a short slump and a rapid recovery (they read the OECD, IMF, IBRD studies of the day which predicted exactly that, and prepared their responses accordingly). In the event this was unwise -- there was no global recovery until 1983 and its impact has still barely affected the real price of most sub-Saharan exports.

Second, over 1979-83 there was no parallel to the Oil Facility and other fairly easy access to soft credit as had been the case in 1973-74. This led many countries into unwise use of supplier credits and of commercial bank loans to bridge what they expected to be a short slump. When the slump continued and interest rates (both nominal and real) rose sharply, their external debt service positions became unmangeable. In over half the cases, substantial commercial payments arrears built up despite sharp cuts in real import volume (in many cases 25 per cent or more).

Third, the unexpectedly long duration of the slump, and cuts in imports forced by limited credit availability combined with rising debt service costs, eroded governments' revenue bases. Despite real cuts on spending under most heads, recurrent budget deficits became chronic even in states like Malawi and Tanzania which had previously had above-the-line surpluses. These deficits interacted with the terms of trade deterioration to produce far more significant currency overvaluations than had been experienced previously.

Why had public sector capacity to act declined so sharply?

The simple answer is lack of resources. For example in Zambia rural health services usually lack fuel and spares for vehicles, drugs and food for patients, equipment and kerosene for clinics. Extension services in several countries cannot sensibly advise use of fertilizer, insecticides, implements or improved seed because none of these is available.

In some countries -- notably but not exclusively the poorer Francophone ones -- civil servants and municipal employees are commonly paid up to three months in arrears. Nearly everywhere attempts to regain budgetary balance have reduced the purchasing power of government employees' pay draconically: for example, in Uganda a clerk or labourer's monthly pay as of early 1984 would barely buy one week's staple food for his family; in Zaire a secretary's salary would just about cover the cost of going to and from work.

In many countries, as the result of two decades of intensive training backed by substantial external support, competent personnel -- especially in health and education -- are available. Unfortunately lack of adequate government revenue or import capacity means that drugs, textbooks, kerosene for fridges, desks and chairs, paper and pencils, beds and medical equipment, vehicles and fuel cannot be provided in adequate quantities for the personnel to function properly (for example, recently, only an emergency foreign grant averted the total absence of drugs in the main Swaziland hospital at Mbabane).

Have sub-Saharan African states overexpanded their public sectors?

Sometimes but not always. On average sub-Saharan government budgets -- with the exception of social security and related transfer payments -- are about the same percent of GDP as in other areas of the world. Nor, with one exception, is there a marked average difference in their make-up by type of spending. Social security and related transfer payments are the lowest of any region; e.g. in Tanzania government pensions, national provident fund and maizemeal subsidies -- the main social security and related transfer payment items -- were under 3 per cent of GDP and, with the 1984 subsidy abolition, are now lower.

Sub-Saharan public enterprise investments vary widely in operating efficiency and profitability. Few generalisations can be made safely even within countries. Public enterprises dealing with food procurement and distribution (in most cases, the lineal descendants of colonial boards) are relatively high cost and limited in their ability to distribute throughout the country. But these failings also characterise most private and co-operative enterprises dealing with food production and distribution.

In two senses the public sector is overextended. First, the present eroded revenue base does not allow full operation of what capacity exists. In cases such as health, education, water, and transport where the need is clearly for more, not less, services for economic as well as humane reasons, the cure lies primarily in restoring the revenue base. For some states not facing significant external threats (e.g. Kenya, Nigeria), some cutbacks in defence spending may well be appropriate. Similarly in some states the proportion of expenditure on administrative services appears unduly large.

Second, given the limited financial and personnel resources, greater selectivity in determining what to do would seem necessary. In most cases the actual choice is not between whether a service is provided publicly or privately; it is between whether it is provided publicly or not at all. In present circumstances, a more limited range of functions, carried out better, would usually be desirable.

In respect of public enterprises the choices are somewhat more complex. For a number of sectors -- e.g. rail transport, electricity generation, airlines, harbours -- there is neither a realistic private sector alternative nor an option to close down. In others the choice is effectively between public sector African (or mixed African/foreign) and foreign private enterprise. Present constraints do imply that where African private (or co-operative) enterprises can do the job -- e.g. small-scale industry, retail trade, most road transport -- public sector enterprise participation needs special, and convincing, justification. Experience elsewhere (notably in

Brazil and South Korea) suggests that detailed, selective state intervention at the product and enterprise level is important to achieving overall economic and export growth. Credit and import allocations are, it appears, particularly critical. Whether such interventions work more efficiently with a substantial public sector presence in the financial and external trade fields is open to debate. The appropriate answer is likely to vary from state to state, and over time, and to be related as much to the number of qualified, experienced citizen personnel available as to ideological choices.

How much of sub-Saharan Africa's failure to respond effectively flows from bad economic management?

This varies widely from country to country. Just as the 1970s economic performance record was very uneven, so also was the quality of economic management. In every country some policy mistakes, and a greater number of weaknesses in implementation and management, can be cited. However, it is not convincing to argue that economic management suddenly became worse as of 1979.

What clearly did happen was that economic management became less able to produce the desired results. That, however, was true in all regions -- not excluding OECD -- over 1979-82. The failure was more pronounced in sub-Saharan Africa because the external shocks were greater both relative to the physical and financial capacity to respond and to the ability of economic management to tackle harder problems. Diversion of attention to crisis containment, however necessary, saps annual programming and strategic planning capacity.

Failure to achieve results -- for whatever reasons -- is bad for morale. When repeated failures accumulate over several years, individual and institutional managerial capacities are eroded. That process has occurred already in several states which performed badly in the 1970s; there is a real danger that it will occur in several more if the problems which have overwhelmed many sub-Saharan countries in the past five years remain unresolved.

Have Francophone countries done better economically?

Probably not. If one pairs roughly comparable Francophone and Anglophone economies and looks at a range of indicators, for example, past and present growth rates, external balance, external debt burden and adequacy of public services, it is possible to reach an opposite conclusion. Much depends on which indicators of economic performance are chosen.

Botswana has a better record than Gabon. Cameroon has performed better than Nigeria. Kenya has done somewhat better than the Ivory Coast (especially taking into account the latter's appalling external debt position). While both Sierra Leone and Guinea have been consistently unsuccessful economically, the Guinean record is worse. Senegal -- despite near stagnation for most of two decades -- has done less badly than Ghana. Malawi has outperformed Mali by a substantial margin and Tanzania has a much better record than the Malagasy Republic.

What is evident is that the majority of Francophone African states have usually avoided overt recurrent budget deficits, open detailed quantitative

import controls and -- less markedly -- sustained high rates of inflation. The reason for this -- and their typically higher external debt services burden -- lies in the monetary and exchange rate system which members of the franc zone operate.

<u>What is special about the Francophone West African, Central African, and Malagasy Central Banks</u>?

These are operated for the two groups of states, as well as -- less rigidly -- for Madagascar, on the lines of the last phase of the British Colonial Currency Boards. They have strict limits on fiduciary issues and are basically French-run in terms of policy. Change of currency parities against the French franc (or each other) is only permitted exceptionally.

Nor is exchange control against France allowed. The French leverage is exerted partly through the provision of French personnel, but even more through the provision of French Treasury Funds to cover approved state and external balance deficits.

This framework does prevent access to the printing press for the finance of government deficits; but it also prevents devaluation as a cure for overvaluation and ties real exchange rate changes to those of France, which is not very logical given their differences in economic structures. As a result it leads to smaller government spending (or to non-payment of bills including wages and salaries) and to somewhat greater price stability. It has also led to far greater use of short- and medium-term external commercial credit (for the Ivory Coast £3 500 million falls due over 1984-88) and to heavier taxation of agricultural exports -- neither of which features can be considered evidence of a satisfactory strategy on broader economic grounds.

<u>Does the greater number of middle-level Europeans and old colonial hands benefit Francophone African states</u>?

Yes and no. The greater number of mechanics, secondary school teachers, hairdressers and foremen are the counterpart to less training -- especially less technical and vocational training. That seems to be a weakness of Francophone Africa and of France's form of development co-operation, which is in contrast to Commonwealth Africa's relative success in training and the strong co-operation it has received from the United Kingdom.

Commonwealth African governments may at times have been too eager to localise jobs, but on balance it is doubtful that the quality of their basic line officers is now lower than that of Francophone states with their larger numbers of former colonial civil servants. Part of the difference is terminological. Anglophone states use more specialist consultants and technical assistance personnel from a variety of sources and tend to call such people advisors even when they are doing standard civil service work.

A real difference does exist in respect to the staffing of Treasuries and Central Banks. But the effect upon policy and administration appears to be as much the result of maintaining fixed Franc zone parities, to the absence of exchange control, to the limitation of fiduciary issues, and to the

operation of the French Treasury special account as to the actual nationality of the personnel employed.

Do many sub-Saharan economies have serious external debt problems, or is it only a handful such as Zaire, Sudan, Nigeria, Ivory Coast?

Most sub-Saharan African economies have very severe external debt and debt service problems. Only Botswana and Cameroon can be said unambiguously to combine viable medium-term import capacity, sound external balance parameters, and comfortable debt service ratios. Gabon may soon reach that position, but only after five years of internal recession to overcome its external debt crisis.

Zaire, the Sudan, Nigeria and now the Ivory Coast are the best known cases because they are absolutely the largest. Smaller countries whose debt-servicing costs now require 25-50 per cent of export earnings are equally weighed down, but the absolute size of their debt is not large enough to attract the attention of the international financial community.

The total external debts of sub-Saharan African countries include very high proportions of very short-term credits (i.e. under one year), commercial arrears and IMF drawings, which do not figure in the World Bank's debt statistics but do need to be serviced. Taking these into account, the typical African economy has a debt service ratio of 35-40 per cent of export earnings. Even countries like Zimbabwe, which had limited debt in 1980 and borrowed only for priority capital projects, and which sought to maximize the use of soft and long-term finance, have debt service ratios which are already over 30 per cent and likely to rise.

How much would rescheduling help?

Rescheduling by itself will not help much in the more acute cases -- at least not unless the period and terms are to be significantly different from current London and Paris Club models.

To be able to service debt African countries must increase exports. To do so they need to avoid economic collapse and to invest in the production of exportable goods and in the necessary supporting infrastructure. This means more imports for specific investments, more imports to keep the economies going, and more imports to maintain or rehabilitate the existing capital stock. Import cuts in many economies are now starving the export sector of materials and spare parts, and debilitating processing and transport capacity.

Two or three year roll-forward debt rescheduling exercises cannot provide all of the foreign exchange needed to rehabilitate or expand exports to the extent necessary to enable the debt eventually to be re-paid. Both new lending (public and/or private) and interim balance of payments support funding are needed too. More useful than repetitive one or two year capital payment reschedulings would be a number of packages combining five to eight year capital repayment deferral with aid and selective new lending.

In some cases, such as Zaire, the Sudan and, counting arrears, Tanzania and Zambia, it is clear that the full amount lent can never be recovered. An

analogy to the reconstruction of company debt should apply here. It would be better to write off some of the debt (or to achieve the same result by turning it into longer-term, low interest obligations) in order to allow a practicable programme for servicing the rest.

Isn't it vital for sub-Saharan economies to export more?

Yes. Many are now covering only 50 to 60 per cent of their imports from export earnings. Worse, this is being achieved at import levels which have been cut so much that these economies, including their export sectors, cannot function properly. The need to raise export earnings could not be clearer.

In some, but by no means all cases, the export sectors are large relative to GDP and are leading sectors which create growth in demand for others -- for example in Botswana. What is general is that sub-Saharan African economies (and other low income economies, excluding India and China) are highly sensitive to fluctuations in real levels of imports. When these are stagnant or cut, so too is domestic production. Ironically this is most true when imports are largely directed into domestic production (not final consumption), are a relatively low proportion of output value at factor cost, but are vital to production. Forced cutbacks in such imports have a negative multiplier effect on GDP. For example, in Tanzania the ratio of operating inputs and spares to ex factory value of manufacturing is -- on average -- between 20 and 25 per cent. Therefore a $1 cut in the real value of such imports causes a $3 to $4 constant price loss of GDP, distributed among manufacturing and sectors selling domestic inputs to it. The most pressing and most general reason why sub-Saharan economies must raise export earnings is, therefore, to raise real import capacity to sustain, to restore, and to expand domestic production, especially domestic production for domestic use.

Identifying what is to be done requires looking at the causes of declines in the real earned import and debt service capacity provided by exports. Part of the problem is the fall in the real prices of many exports. This has both reduced earnings on present volumes and acted as a disincentive to expansion. But sub-Saharan economies can do little about this on their own, and the OECD recovery has not yet caused much improvement -- especially in mineral prices.

Therefore, either the volume of present exports must be sustained, restored, raised, or new ones developed. But which exports? To that question there are no easy, general answers -- except wrong ones. If all sub-Saharan economies were to raise coffee, tea, cocoa, tobacco, sugar and cotton exports 5 to 8 per cent a year, the price elasticities and their combined share of world trade in these products are such that they would earn less, not more, foreign exchange. Sub-Saharan Africa is not, in general, a low labour cost area. Its nominal wages are often above those of South Asia but its labour productivity is not. Very few countries can mount labour-intensive export zone type programmes with any prospect of success.

Some specific answers can be given: Ghana needs to rehabilitate cocoa, Uganda tea, the Sudan cotton and Senegal groundnuts. Zimbabwe should rehabilitate and expand ferrochrome and steel production. New natural resource-based products with reasonable market prospects, such as ammonia/urea

in Tanzania, should receive priority attention. But these approaches need to be worked out on a case by case basis. They require both time and finance to implement. All they could provide would be a start to the rebuilding of current account positions. Additional new exports need to be identified and developed on a pragmatic country by country basis -- and on a substantial scale. Their urgency is reinforced by the fact that for their initial five to eight years of operation, servicing the external debt incurred to create them will severely limit their contribution to foreign exchange availability for augmenting general import capacity.

Why is sub-Saharan agriculture performing so badly?

Several reasons. A very important reason -- especially for export crops -- is price. Overvalued currencies and falling real international prices discourage output. Grain production which competes with imports, where these are not restricted by various means, can also suffer (but such cases are now in a distinct minority). For food crops more generally, evidence suggests that price may not usually be the main problem. Food prices have risen faster than either wages or the cost of living in most African economies since 1979 (where this is not the position in respect of official prices, peasants often sell on parallel markets and so do benefit from higher prices).

A second reason is the general economic situation. Agricultural inputs -- even hoes -- are in scarce supply because of decreased import capacity. The general economic situation is also causing processing and transport capacity to break down and has the effect of depriving food producers of the domestic manufactures and other goods that would serve as an incentive for them to bring their produce to the market.

A third reason is the lack of basic health, water and education in many rural areas. This provides a very strong disincentive to staying on the farm. The more ambitious leave for the urban areas, where such services are better. Of those who stay, it may be observed that peasants who are often ill or illiterate or both and who -- especially women and girls -- often have to spend much of their time walking many miles to get wood and water, are not likely to be very productive.

A fourth reason is the overemphasis on large mechanised farms, and on large-scale centrally organised irrigation schemes -- an overemphasis still promoted by many external bodies. Mechanised agriculture in Africa -- at least for staple food production -- requires skilled management, fuel, and capital and is therefore import intensive. If often yields a poor return on capital employed even when (as in Zimbabwe) it is technically efficient. The same is usually true of large-scale, centrally run irrigation schemes -- as in Senegal, Mali and northern Nigeria (the Sudan and Kenya are partial exceptions). These divert government expertise, personnel and funds away from addressing the central problems of peasant agriculture.

A fifth cause is changes in residential and occupational structure. In 1960 about 80 per cent of households were peasant producers; in 1980 about 65 per cent were. Taking into account population growth, this would have required a 50 per cent increase in food production per peasant household in order to maintain output per capita.

Finally -- in contrast to South and Southeast Asia -- sub-Saharan Africa has benefitted very little from agricultural research and technology which has been development-tested in the field for economic viability to growers and for peasant usability. Extension services are weak and peasants are cautious in adopting innovations (rightly so, as their lives are at stake and much past advice has been wrong). But the basic problem is a lack of tested knowledge on how output can be raised within specific ecological, labour, input and capital constraints, and a failure to ascertain whether the grower's net income benefit from that increase would be enough to justify his accepting the extra risk and putting in the extra effort required. More attention from the international crops research institutes (especially ICRISAT), more co-ordinated regional work (as in SADCC on sorghum, millet and grain legumes), and more carefully planned programmes are needed, especially for food crops. This is an area in which external initiatives and support are both necessary and likely to be welcomed. Without additional knowledge, extension, and related inputs, it is hard to see how total output per peasant household can rise significantly on a sustained basis, especially bearing in mind that increasing population is shortening the fallow periods in traditional land-use rotation systems and forcing increasing use of sub-marginal land.

Do not sub-Saharan economies urgently need "to get the prices right"?

Certainly. Present exchange rates (foreign exchange prices), grower prices, and price controls are often unrealistic and counter-productive. But, given the prevailing situations, price corrections often can be made only in conjunction with other measures.

If prevailing staple grain prices are only half what growers need to break even, they need to be changed. But such prices cannot be adjusted overnight with no other action. If they are there will be reactions by workers (whether riots, strikes or absenteeism), imperilling both public order and production. Alternatively there will need to be compensating -- or partially compensating -- wage increases and/or additional food supplies to reduce "parallel market" grain prices.

If devaluation is not accompanied by external finance to permit increased imports to restore local production (e.g. of simple manufactured goods), and the processing and transport of exports, it will usually simply set off new inflationary spirals which rapidly cancel out the devaluation's initial price correction. Because IMF resources and quotas do not permit drawings large enough to meet these import requirements, most IMF programmes must be accompanied by World Bank and bilateral finance packages if they are to succeed.

At issue are not simply relative price changes: real wages in many African states have fallen 50 per cent since 1979 and, except for the Francophone states (who have recently floated down with the franc), most have devalued massively in nominal -- and in some cases real -- terms. Questions of phasing, and of the need to take supply-increasing steps parallel with price corrections, are also important. As the World Bank pointed out in its 1982 World Development Report, and even more forcefully in its 1984 submission to the Development Committee, additional resources are necessary not simply to

make price corrections compatible with political stability, but even to allow them the chance of having any lasting economic effect.

What about investment?

Further investment is urgent, but not primarily in new capacity. Patterns of investment need to be changed every bit as much as relative prices.

Key elements of present productive capacity and infrastructure throughout sub-Saharan Africa are deteriorating for lack of maintenance. Many production and transport units have deteriorated so extensively that they require major rehabilitation. This should have top priority in gross investment. Investment in new capacity will often make no addition to output; it may simply increase the general level of capacity under-utilisation.

This is partly the responsibility of aid and credit agencies. It is much easier to secure funding for a new highway than for rehabilitation of an endangered one; it is even more difficult to get finance for the equipment and training of maintenance units.

Selective new investments to raise production possibilities in respect of exports, and substitutes for imports (especially food and energy), are needed. But in general much more attention (and external support) needs to go to maintenance, rehabilitation and the fuller use of existing capital stock.

Shouldn't sub-Saharan economies be practising austerity?

Most are. Taking into account population growth and terms of trade losses, Zambia's per capita use of resources has fallen by nearly 50 per cent since 1975. Total constant price expenditure on public services in Tanzania (excluding debt service) has been reduced each year since 1979-80 -- with a total fall of the order of 20 per cent. Real civil service wages and salaries are down 20 per cent or more since 1979 in a majority of African states and 50 per cent or more in a significant number. Import volume cuts are frequently of the same order of magnitude.

As the IMF has said with regard to the import cuts, this type of wholesale austerity is becoming counter-productive. At the international level it is both a drag on the recovery of world trade and -- because it is eroding exports and making debt service burdens look ever more unbearable -- raises risks of deliberate defaults or, more probably, of defaults through sheer inability to pay. Nationally it is eroding both incentives to work hard (by peasants, wage earners, civil servants and managers alike) and the capacity to provide minimum critical services (e.g. power, water, education, health, agricultural extension).

What austerity by itself has not been able to achieve is the freeing of sufficient resources either to restore external balance or to end recurrent budget deficits. In many countries there is an acute danger that further cuts will merely have the effect of diminishing exports and government revenue and increasing inflation yet further.

Continued austerity -- tempered once real output per capita, government

revenue and exports begin to recover -- is critical. But it will only work if more foreign exchange to restore production and government revenue is also available. In some cases this may largely require altering the balance of external financial flows toward maintenance, rehabilitation and operating inputs. In others -- as with the rehabilitation programmes of major commercial enterprises -- more external grants and credits will be required if the austerity is to pay off.

Is there a case for more policy dialogue?

Of course, if it really is dialogue. Both donors and African states have made mistakes, need to reassess and to revise their programmes, and are (or ought to be) unsure what really will work now. There is an urgent need to get away from casting blame, making rhetorical generalisations, and trying to compress very complex and specific problems into one sentence slogans. Serious policy dialogues aimed at seeing in specific contexts what the critical problems are, what has been successfully or unsuccessfully prescribed and attempted in the past, and what actions should and can be undertaken now, could be very useful.

Preaching and imposing programmes (which is what most sub-Saharan African governments currently think invitations to dialogue actually mean) will not be useful. First, many of the actions now criticised were advocated and financed by some of today's most confident critics (for example, in the early 1970s' grain price reductions, emphasis on mechanised agriculture, over-investment in large factories, international airports, etc). Second, generalised prescriptions from a long distance rarely correspond well to specific realities. Third, imposed programmes may well be accepted but usually only after an economy is in a state of nearly complete collapse and with a limited commitment to working steadfastly for their implementation. Such conditions do not augur well for the success of even the most soundly conceived programmes.

Because the situation in most sub-Saharan economies is very serious, because past results suggest serious errors in donor and recipient policies and analysis, because the present context requires policy changes, because specific programmes must relate to actual national contexts (not generalisations intended to apply to 30 countries), and because difficult policies require genuine national understanding and backing if they are to work -- dialogue is critical. But it needs to be clear that what is intended really _is_ dialogue, in which donors acknowledge that they too need to learn more in order to formulate sensible programmes for their own actions. Only on that basis is any contribution to the design of rehabilitation and recovery programmes for sub-Saharan countries likely to prove successful.

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Is there a case for more policy dialogue?

Of course, if it really is dialogue. Both donors and African states have made mistakes, need to reassess and to revise their programmes, and are (or ought to be) unsure what really will work now. There is an urgent need to get away from casting blame, making rhetorical generalisations, and trying to compress very complex and specific problems into one sentence slogans. Serious policy dialogues aimed at seeing in specific contexts what the critical problems are, what has been successfully or unsuccessfully prescribed and attempted in the past, and what actions should and can be undertaken now, could be very useful.

Preaching and imposing programmes (which is what most sub-Saharan African governments currently think invitations to dialogue actually mean) will not be useful. First, many of the actions now criticised were advocated and financed by some of today's most confident critics (for example, in the early 1970s' grain price reductions, emphasis on mechanised agriculture, over-investment in large factories, international airports, etc). Second, generalised prescriptions from a long distance rarely correspond well to specific realities. Third, imposed programmes may well be accepted but usually only after an economy is in a state of nearly complete collapse and with a limited commitment to working steadfastly for their implementation. Such conditions do not augur well for the success of even the most soundly conceived programmes.

Because the situation in most sub-Saharan economies is very serious, because past results suggest serious errors in donor and recipient policies and analysis, because the present context requires policy changes, because specific programmes must relate to actual national contexts (not generalisations intended to apply to 30 countries), and because difficult policies require genuine national understanding and backing if they are to work -- dialogue is critical. But it needs to be clear that what is intended really is dialogue, in which donors acknowledge that they too need to learn more in order to formulate sensible programmes for their own actions. Only on that basis is any contribution to the design of rehabilitation and recovery programmes for sub-Saharan countries likely to prove successful.