CLUB DU SAHEL - O.E.C.D.

Document SAHEL D(87)312

STRUCTURAL ADJUSTMENT IN THE SAHEL: BEYOND THE POINT OF NO RETURN?

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Paper prepared for the meeting of the Club du Sahel Study Group on Support for Structural Reforms (Bern, December 1-2, 1987). The meeting is organized by the Direction de la coopération au développement et de l'aide humanitaire of the Département fédéral des affaires étrangères of Switzerland.

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PREFACE

In November 1986, I had the privilege of presenting a first paper on the topic of structural adjustment at the meeting of the Club du Sahel Study Group held at the headquarters of the Canadian International Development Agency in Hull, Canada.* At that time, information concerning the experience of structural adjustment in the Sahel was rare. My paper combined theory and practice in an attempt to draw out various points for reflection and discussion.

A year has passed and we now have a bit more information with regard to the structural adjustment process in the Sahel. We also have the advantage of recent comparative studies on the effects of structural adjustment in other countries. Knowledge concerning the general mechanisms of structural adjustment has developed as well. The goal of this paper is to integrate this recent growth of information and knowledge towards a better understanding of the process of structural adjustment in the Sahel. The present text may be read independently of the 1986 paper and any duplications that exist can be explained in this light.

After a review of basic principles (Section 1), the efforts of both lenders and borrowers to implement structural adjustment in the Sahel are described in the context of the most recent information made available to me (Sections 2 and 3). The paper ends with a discussion of five issues -- raised in the form of questions -- which frequently arise in the debate on structural adjustment. The conclusion addresses a brief message to the lenders.

I have intentionally avoided any systematic discussion of policies concerning cereal agriculture. This omission may seem paradoxical: cereal agriculture involves a significant portion of the Sahelian

* André Martens with the collaboration of Clive Gray and Piere Perron: Structural Adjustment and Coordination of Aid to the Sahel: Notes for Reflection, Sahel GR(86)4, October 15, 1986.

population and the linkages "price - production - consumption - imports" in this sector undoubtedly affect the macroeconomic framework which supports structural adjustment. I offer two reasons for this evident omission. During the Colloquium of Mindelo (Cape Verde) on Sahelian cereal policies, the participants did specify their positions within the context of structural adjustment (production protection, more liberal commercial channels, etc.). As well, I could not have addressed this issue with the same knowledge that my colleague Gerald Gagnon displayed in his recent study (May 1987): La fin d'une utopie: pour un système réaliste de stabilisation des revenus des producteurs céréaliers du Sahel, Ottawa.

The Club du Sahel has commented on a first draft of this paper. In addition, I have greatly benefitted from contacts that I had with representatives of the various Sahelian countries as well as with representatives of the major sources of public financing both bilateral and multilateral during the period July to October 1987.

The paper was typed at the C.R.D.E., Université de Montréal, by Sharon Brewer. The original French version was read by Marcelle Mérette, Isabelle Roy and Marie-Christine Thirion, and was translated by Bryan Campbell. Any errors or significant ommissions that remain are, of course, my responsibility.

November 1987, Montreal

1. REVIEW OF BASIC PRINCIPLES

Structural adjustment refers to the set of domestic policy measures and reforms adopted by a country to reduce the structural disequilibrium of its economy. This structural disequilibrium can be viewed as the chronic existence of a domestic demand for goods and services which exceeds the combined supply of national production and easily-financed imports.

It is useful to classify the reforms and measures which are likely to be included in a structural adjustment program into five major groups [Table 1.1]: stabilization measures aimed at reducing domestic demand for goods and services, efficiency measures whose objective is a more effective use of existing factor endowments, measures which modify the real external value of the national currency towards favoring the competitiveness of national products, measures intended to support economic growth via increases in the available factors of production and, in the fifth category, reforms and measures which aim to streamline the production apparatus and to discipline the workings of public bodies which intervene in economic activity.

The international community's support for a country that implements a structural adjustment program can take three forms: financial help which is swiftly applied to relieve external balance of payments pressures, renegotiation of the external debt of the country concerned and the reduction of tariff and non-tariff barriers which limit the country's access to international markets. These three basic forms of international assistance can be widened to include, on the one hand, more specific measures which aim to ease the difficult transition -- social, political as well as economic -- which is often the consequence of implementing a structural adjustment program or, on the other, measures which intend to develop the country's ability to frame and administer the program by itself. It should be added that relief (for an external balance of payments problem) in the form of foreign exchange

TABLE 1.1

MEASURES AND REFORMS CONTAINED A PRIORI IN A STRUCTURAL ADJUSTMENT PROGRAM

A. STABILIZATION

[towards reducing total domestic demand]

Fiscal measures: for example, limiting the increase of current public expenditures, limiting the increase of private consumption spending through fiscal measures affecting individuals, raising tax receipts.

Monetary and domestic credit measures: primarily limiting access of the government and of public entrepreneurs to bank and non-bank credit to finance current expenditures.

B. EFFICIENCY

[towards increasing supply through the better use of factors of production]

Any measures which eliminate supply constraints resulting from price controls, the existence of monopolies, fiscal policy disincentives, consumption subsidies supported by producers, tariff and non-tariff restrictions on external trade.

Measures which encourage lower information costs for producers.

C. INTERNATIONAL COMPETITIVENESS

[the devaluation or real depreciation of the national currency]

A measure designed to increase exports and reduce imports; the assumption is that economic activity following the devaluation or depreciation will center more on the production of tradables rather than on goods not traded on international markets (such as real estate services, local commerce, construction, etc.).

D. GROWTH

[towards increasing supply through an expansion of the endowments of the production factors]

Measures which encourage investment in physical and human capital.

Measures which encourage the channelling of national savings towards investment needs.

Measures which encourage direct foreign investment.

E. INSTITUTIONAL DISCIPLINE

[towards encouraging stabilization, efficiency, competitiveness and growth]

Reduction of government payment arrears.

Administrative reforms.

Measures which increase the efficiency of public enterprises; for example, their closure, state disinvestment or privatization.

support to a country that has suffered in the aftermath of an external shock a decline in the value of its exports or an increase in the cost of its basic imports is not generally viewed as an example of structural adjustment financing.

The external source or sources of structural adjustment financing generally attach conditions to the provision of funds. The totality of these conditions - known as the 'conditionality' - may coincide with the set of reforms and measures included in the adjustment program or may correspond to distinct performance criteria. The 'respect' of conditionality determined by an external 'surveillance' conducted by the lending agencies is a precondition for the continued disbursement of funds as originally agreed and is critical as well for any future commitments of support.

This summarizes in a neutral even aseptic style the concept of structural adjustment and its associated terms. The reality of structural adjustment programs, in the Sahel as elsewhere, is of course more vibrant and occasionally frought with emotion.

2. HOW DO LENDERS CONTRIBUTE TO STRUCTURAL ADJUSTMENT IN THE SAHEL?

During the present decade, the authorities of each of the nine member countries of the Permanent Inter-State Committee for the Control of the Drought in the Sahel [CILSS] have accepted at least once to submit their development programs to the examination of creditors either in the context of a Round-Table or a meeting of a Consultative Group (Table 2.1). It has been usual to contrast in an openly critical way the work of a Round-Table organized by the UNDP where the "development projects are negotiated" with the meetings of a Consultative Group held under the aegis of the World Bank where "politics are discussed". This difference has become less and less apparent. Now it can be safely said that both review processes discuss issues associated with structural adjustment.

Table 2.1

Aid Coordination Mechanisms in the Sahel
August 31, 1987

Country	Sponsored by	Type of mechanism	Year of creation	Date of the last Meeting
Mauritania	IBRD	Consultative Group	1985	November 1985
Senegal	IBRD	Consultative Group	1984	May 1987
Burkina Faso	UNDP	Round-table	1976	November 1985
	IBRD	Consultative Group	1987	January 1987
Cape Verde	UNDP	Round-table	1982	October 1986
Chad	UNDP	Round-table	1982	November 1985
Gambia	UNDP	Round-table	1984	November 1984
Guinea-Bissau	UNDP	Round-table	1984	May 1984
Mali	UNDP	Round-table	1982	December 1985
Niger	UNDP	Round-table	1987	July 1987

Source: O.E.C.D., Paris and UNDP, New York.

One major difference does still exist. For reasons related to its internal manner of operation, UNDP continues to approve financing for individual development projects. By contrast, while the World Bank maintains its financial support for development projects, it has at its disposal since the beginning of the 1980s a mechanism for financing external balances of payments: structural adjustment loans both global and sectoral [Tables 2.2 and 2.3].[1]

Another heavyweight player is evidently the IMF [Table 2.4]. Involved now for many years in the financing of the balance of payment deficits of African countries, the IMF grants Sahelian countries various loans with conditionality set in the framework of stand-by agreements.[2] In March 1986, the IMF created a new line of credit, the Structural Adjustment Facility (SAF). Countries able to borrow from the International Development Association (IDA), itself the second or third window of the World Bank, qualify for the new line of credit under soft conditions. Such is the case for all Sahelian countries. Since July 1987, some new provisions have permitted the acceleration of the pace of disbursement of funds granted under the SAF.[3] It is important to note in this context that three Sahelian countries (Gambia, Mauritania and Senegal) are among the twenty low-revenue countries with access to subsidized loans from the IMF under the supplementary facility created in 1979 [Table 2.5].[4]

When a country signs a stand-by agreement with the IMF, at least two birds are killed: the country does obtain its loan but, as well, it increases the likelihood of renegotiating its external debt with those public lenders grouped in the Club of Paris or those private lenders who meet at the Club of London [Table 2.6]. Indeed, the IMF is perceived by Third World creditors as the 'keeper of conditionality'. Furthermore, in the Sahelian region where France is one of the most important sources of funds a structural adjustment loan from the Caisse centrale de coopération économique is virtually guaranteed with the signing of a stand-by agreement with the IMF [Table 2.7].

TABLE 2.2

World Bank Global Structural Adjustment Loans to Sahelian Countries: August 31, 1987 (in millions of U.S. dollars)

Country	Date of Approval	Amount	Breakdown of financing
Chad	in negotiation		
Gambia	August 1986	24.5	IDA[2]: 5.0; SFA:[3] 11.5; Saudi Arabia: 3.2; Great Britain: 4.8
Guinea-Bissau	May 1987	25.7	IDA: 10.0; SFA: 5.0; Saudi Arabia: 3.2; Federal Republic of Germany: 2.2; Switzerland: 5.3
Mauritania	June 1987	49.9	IDA: 15.0; SFA: 27.4; Saudi Arabia: 4.8; Federal Republic of Germany: 2.7
Mali	advanced stage of negotiation		
Niger	February 1986	65.9	IDA: 20.0; SFA: 40.0; Saudi Arabia: 5.9
Senegal	December 1980	60.0[4]	BIRD: 30.0; IDA: 30.0
	February 1986	78.8	IDA: 20.0; SFA: 44.0; Saudi Arabia: 5.9; Switzerland: 8.9
	May 1987	92.9	IDA: 45.0; SFA: 40.0; Switzerland: 7.9

[1] Bilateral cofinancing is granted in the national currency of the lender. The indicated amounts reflect a conversion to U.S. dollars using the exchange rate of June 30, 1987.

[2] IDA: International Development Association.

[3] SFA: Special Fund for Africa.

[4] The second tranche was cancelled in June 1983, because the conditionality regarding agriculture reforms was not satisfied.

Source: World Bank, Washington, D.C.

TABLE 2.3

World Bank Sectoral Structural Adjustment Loans: August 31, 1987 (in million of U.S. dollars)

Country	Date of Approval	Total	Breakdown of Financing	Object
Burkina Faso	February 1985	13.7	IDA[2]: 13.7	fertilizer imports
Guinea-Bissau	December 1984 April 1986	10.0 5.0	IDA: 10.0 SFA[3]: 5.0	} 'reconstruction' imports
Mali	in negotiation	-	-	rehabilitation of public enterprises and the Office du Niger
Mauritania	March 1985	16.4	IDA: 16.4	rehabilitation of public enterprises
	December 1985	20.0	IDA: 20.0	rehabilitation of SNIM (Société nationale industrielle et minière)
Niger	May 1986	57.2	IDA: 15.0; SFA: 15.0; Japan: 27.2	rehabilitation of the transport sector
	June 1987	80.0	IDA: 60.0; SFA: 20.0	rehabilitation of public enterprises
Senegal	in negotiation	-		industrial development

[1] Bilateral cofinancing is granted in the national currency of the lender. The indicated amounts reflect a conversion to U.S. dollars using the exchange rate of June 30, 1987.

[2] IDA: International Development Association.

[3] SFA: Special Fund for Africa.

Source: World Bank, Washington, D.C.

TABLE 2.4

Stand-by Agreements and Structural Adjustment Facility (SAF) Accords: July 31, 1987* (in millions of SDR)

Country	Date of Accord	Date of Expiration	Agreed Total	Balance not drawn
Stand-by agreements:				
Gambia	17/09/86	16/10/87	5 130	2 050
Mauritania	04/05/87	03/05/88	10 000	8 000
Niger	05/12/86	04/12/87	10 110	4 050
Senegal	10/11/86	09/11/87	34 000	75 000
SAF accords:[1]				
Gambia	17/09/86	16/09/89	8 037	4 617
Mauritania	22/09/86	21/09/89	15 933	9 153
Niger	17/10/86	16/11/89	15 839	9 099
Senegal	10/11/86	09/11/89	39 997	22 977

Source: IMF Bulletin, 07/09/87, p. 250.

* On July 31, 1987, the SDR was worth 1.26645 $ U.S.

[1] After July 31, at least one Sahelian country has benefitted from a SAF loan: Guinea-Bissau for 4.8 million SDR.

TABLE 2.5

IMF Supplementary Facility: Total Loans ('purchases') for Eligible Sahelian Countries and Cumulative Grants (bonuses) from 1981 to 1987 (in millions of SDR)

Country	Purchases	Cumulative Grants 1981-1987
Gambia	4.8	0.53
Mauritania	16.0	2.19
Senegal	54.2	7.19

Source: IMF Annual Report 1986, Washington, D.C., p. 98 and IMF Bulletin, 07/09/87, p. 141.

TABLE 2.6

External Debt Renegotiations by Sahelian Countries
(in millions of U.S. dollars)

	1975-1981		1982		1983		1984		1985		1986		Number of renegotiations 1975-86
	C P	C L	C P	C L	C P	C L	C P	C L	C P	C P	C L	C P	
GAMBIA												25	1
MAURITANIA									77			27	2
NIGER					33		39	28	32			39	5
SENEGAL		77	84		64			97	105	22		86	7
TOTAL		77	84		97		39	125	214	22		177	
TOTAL	77		84		97		164		236		177		15

C P = Club of Paris

C L = Club of London

Sources : - World Debt Tables 1986, World Bank
- IMF Bulletin
- O.E.C.D./CAD

TABLE 2.7

French Financial Assistance towards Structural Adjustment in the Sahel

A. Structural adjustment loans: from 01/01/78 to 30/06/87[1]

Year	Burkina Faso		Mali		Niger		Senegal	
	Amount (millions of F.F.)	Interest Rate	Amount (millions of F.F.)	Interest Rate	Amount (millions of F.F.)	Interest Rate	Amount (millions of F.F.)	Interest Rate
1978							50	10.20
1979							50	12.77
1980	50	8.05					80 200	7.65 14.88
1981					72.6	7.95	100	10.00
1982	50	8.50			60.0	9.70	150	16.12*
1983	70	8.82			100.0	10.00	200 54	9.82 14.20
1984					100.0	9.49	146	8.095
1985					100.0	8.86	200	9.16
1986			20 36	5.40 5.70			250	5.50
1987 (au 30/06)					90.0	5.75		

B. Budgetary aid: from 01/01/86 to 30/06/87[2]
(in millions of F.F.)

1986	Mali	:	40.0
	Mauritania	:	11.0
	Niger	:	40.0
	Chad	:	156.5
1987 (to 30/06)	Burkina Faso	:	0.7
	Guinea-Bissau	:	3.0
	Mali	:	20.0
	Chad	:	67.0

[1] Structural adjustment loans from France are extended by the Caisse centrale de coopération économique (C.C.C.E.), subsidized by the Ministère de la Coopération and guaranteed by the Treasury.

[2] Budgetary aid is granted by the Ministère français de la Coopération.

* A cancellation of a FAC credit for 51.8 million F.F. decreased the effective rate to 12.8 %.

Source: C.C.C.E. and Ministère de la Coopération (Paris).

The World Bank and the IMF, the two traditional multilateral institutions which offer financial support for structural adjustment, have recently been joined by a third - the African Development Bank (ADB) or, more precisely, the second window of the bank, the African Development Fund (ADF). In June 1987 this institution granted an adjustment loan of 10 million UCF to Guinea-Bissau and, in August 1987, Senegal received a loan of 30 million UCF (the UCF is the unit of account of the ADF and its value is close to the SDR). The ADB-ADF was a passive partner in the determination of the conditionality for both these loans. The originator in both cases was the World Bank and the AFD loans complemented loans from the World Bank. This situation will change according to its managers in Abidjan since the ADB-ADF is eager to become more involved in discussions relating to conditionality. The test case will be Mali, undoubtedly the next country in the region to benefit from structural adjustment loans from the World Bank and the AFD.

What is the situation with regard to structural adjustment for the bilateral lenders other than France?

The United States, in general, assimilates structural adjustment with the liberalization of the economy and the privatization of economic activity. This approach is reflected in the nature of the conditionality that is attached to the different types of American non-project aid [Table 2.8]. Saudi Arabia, Great Britain, Japan, the Federal Republic of Germany and Switzerland co-finance some of the World Bank's structural adjustment loans to the Sahel [Tables 2.2 and 2.3]. All bilateral lenders (and the European Community) maintain a more or less significant flow of individual development projects. At this level, there are also a number of projects which integrate comfortably with the more general aims of structural adjustment; for example, Belgium, Canada, the European Community, the United States, France, Great Britain, the Netherlands, the Federal Republic of Germany as well as the World Food Program and the World Bank are participating in the Program to Restructure the Cereal

Table 2.8
Non-Project aid from the United States to Sahelian Countries: Some Examples

Country	Aid Instrument	Amount ($ US millions)	Date	Areas of policy reform comprising the subject of conditions present in covenants
Cape Verde	Food aid (PL 480, Title II, Sec. 206)	14.8	April 86	Pricing of food at world market levels to eliminate subsidies, search for means of targeting relief to income groups adversly affected by higher prices.
Chad	Program grant, budgetary support for development ministries	7.0	September 86	Curbing of government expenditure (abstention from car loans or guarantees for civil servants), implementation of civil service census.
Mali	Food aid (PL 480, Title II, Sec. 206)	5.03	June 84–September 87	Liberalization of cereals marketing, improved cereals production incentives, cost reduction in official agencies concerned with cereals marketing.
	African Economic Policy Reform Program (AEPRP)	18.00	1985-1987	Legislative enactment and administrative implementation of tax reform and liberalization of price control; restructuring of Government Budget, including computerization of payroll, implementation of voluntary retirement program, ceilings on civil service recruitment, increase in ratio of material to personnel expenditure; privatization of public enterprises; compliance with terms and conditions of planned IMF Stand-By Agreement.
Mauritania	Food Aid (PL 480, Title II, Sec. 206)	5.44	June 86	Phased increase of food grain selling prices to full import parity; reduce role of GIRM in the gain market, and more carefully target free food distribution to the needy
Niger	Agricultural Sector Development Grant	39.7	June 84–May 87	Phased reduction of subsidies for agricultural inputs, privatization of marketing of cereals and inputs, liberalization of border trade with Nigeria, promotion of free rural financial markets.
	Health Sector Support Program Grant	15.0	July 86–March 87	Increased recovery of hospital operating costs, reduction in proportion of health ministry budget allocated to hospitals, redeployment of health personnel, rationalization of drug procurement, liberalization of contraceptive distribution.

Table 2.8 (continued)

Country	Aid Instrument	Amount ($ US millions)	Date	Areas of policy reform comprising the subject of conditions present in covenants
Senegal	Economic Support Fund (ESF), PL 480, Title I, Agricultural Production support grant, AEPRP, various technical assistance grants	98.9	1984-87	Privatization of rice importation; liberalization of cereals marketing; phasing out of price equilization for export crops, rice, and vegetable oils; prices of domestic agro-industries to adjust to world market conditions, allowing some units to go out of business; reduction of fertilizer subsidy and withdrawal of state entities from fertilizer credit sales; privatization of seed production, storage and sales; reduction in staffing of regional development agencies (RDAs) and phasing out of their production-related activities; collection of tax arrears, reduction of customs duty exemptions, and other measures of direct and indirect tax reform; rehabilitation of selected banks and other reforms in credit system.

Source: USAID, Washington, D.C.

Market of Mali (P.R.M.C.).* Another example of such integration occurs when a lender leaves at the disposal of a country involved in a structural adjustment program the funds generated by the sale of food aid as a general subsidy to the national budget. As well, certain countries (Canada, France, Netherlands, Sweden, ...) cancel or regularly diminish in a unilateral manner Third World debt owed to them. This often includes Sahelian debt.

3. THE CURRENT PROGRESS OF STRUCTURAL ADJUSTMENT IN THE SAHEL

Economic policy measures in the Sahel which may be said to be in the spirit of orthodox structural adjustment have intensified over the last two or three years.

With regard to the issue of price control of consumer goods and other goods [Table 3.1, column b], flexible prices are actually the general rule in two of the Sahelian countries, and prices which are still controlled (electricity, water, telecommunication services) are regularly increased to reflect the upward movement in production costs. In five other countries the number of products with controlled prices has been significantly reduced. The will to control prices does prevail in the remaining two countries but, in at least one, controlled prices are somewhat of a fiction since the administration is incapable of implementing such a policy with any success.

With respect to salaries [Table 3.1, column c], the real salaries, and hence the purchasing power, of civil servants have clearly decreased in four countries. In the five other countries where such information is

* More detail on the P.R.M.C. can be obtained form Gérard Gagnon: Le projet de restructuration du marché céréalier au Mali de janvier 1984 à juin 1987: une vue de l'intérieur (mimeo). The P.R.M.C. illustrates how a country which cannot give general balance-of-payment support because of its own rules of operation can nevertheless carry on structural adjustment with a well-defined action. In Mali's case, credit support for commercialization (and other measures) led to a greater privatization of the cereal market.

TABLE 3.1

Prices, Wages and the Public Sector of Sahelian Countries: Current Situation and Recent Developments

(a) Countries	(b) Prices	(c) Salaries	(d) Public Finances	(e) Public Enterprises	Information valid until
Burkina Faso	remain largely controlled by the state	no public wage increases since 1982; reduction of allowances and loans to senior officials	small decrease in public debt (via disbursements) at the cost of an increase in payment arrears	operational deficits persist with an increase in payment arrears; one exception is the Caisse générale de péréquation des prix des produits de grand consommation which benefitted in 1985 from the drop in the world price of oil	end of 1985
Cap Verde	primarily determined by the market with state surveillance of the price of essential goods and mark-ups; subsidy of the price of public goods	no increase since 1983; adjustment plan for 1985 delayed to 1986	high deficits due to capital expenditures, in general, almost exclusively financed externally	do not receive state subsidies (except ELECTRA) and must assume own financing; profits are an important source of government revenue	beginning 1986
Gambia	flexible pricing for essential goods (rice) and regular adjustments of prices of controlled goods (petroleum products, public utilities, transportation services); increase of agricultural prices at production	slight increase of nominal wages, at less than the inflation rate	significant improvement of budgetary situation due to increases in fiscal receipts (customs) and reduction of current expenditures	has traditionally been a drain on the state buiget; since 1984 there has been a slight performance improvement; in 1986 a moratorium on new enterprises and a plan for privatization (1986-90) beginning with fishing and tourism	mid-1986

TABLE 3.1 (continued)

(a) Countries	(b) Prices	(c) Salaries	(d) Public Finances	(e) Public Enterprises	Information valid until
Guinea-Bissau	since August 1986 a reduction in the number of goods and services with controlled prices and simplification of administrative control procedures; agricultural price supports maintained	nominal increase in public wages in 1984 (49 %), in 1985 (32 %), in 1986 (30 %)	global deficit traditionally high; in 1984 adoption of new fiscal measures to allow current revenues to double; but also a deficit increase due to increase in current and capital expenditures, with further deterioration in 1985	most are weak performers (prices badly set, lack of funds, bad management, excessive personnel) requiring regular government aid	mid-1986
Mali	reduction in 1986 of the list of controlled prices, abolition of monopolies and monopsonies of the SOMIEX	a freeze in public salaries and of SMIG and SMAG from February 1982 to March 1985 accompanied by a significant reduction in the taxes of wage earners; in March 1986 a 30 % increase in salaries of contractual workers and a 14-28 % increase for civil servants	from 1982 to 1984 new measures to improve tax collection; the deficit (excluding grants) is slightly less thatn 10 % of GDP with increases in revenue offset by increases in expenditures (public wages)	from 1983-86 a liquidation of six public companies with others underway, including Air Mali; improved performance of public service enterprises following an increase in the price of services	end of 1986
Mauritania	reduction in December 1985 of list of controlled prices; increase from 1985 to 1986 of the price of petroleum products (3 % for gas and 5 % for diesel fuel)	until 1984 freeze in wages for SMIG and public sector; in 1985, salary increase for civil servants with largest increase for lowest salaries	since 1983 progressive reduction in global deficit (excluding grants); in 1985 the elimination of back payments to nationals permitted by a Saudi Arabian grant	undergoing rehabilitation - Sonelec, SNIM, port authority, telecommunications - or liquidation; management improvement programs and price adjustments for public goods	mid-1986

TABLE 3.1 (continued)

(a) Countries	(b) Prices	(c) Salaries	(d) Public Finances	(e) Public Enterprises	Information valid until
Niger	liberalization of cereals markets and regular adjustment of agricultural production prices; abolition of most monopolies (except for petroleum products)	no recent increase in public salaries	gradual reduction of global deficit since 1980-81 by cuts in capital and extra-budgetary expenditures	since 1985 important program of liquidation and rehabilitation (SONICHAR, OFLDES, NIGELEC, COPRO-NIGER, BDRN)	end of 1986
Senegal	since 1980 a progressive reduction in price-subsidies to essential goods; despite a policy which fixes and reviews price, most prices are actually determined by the market; in practice, price controls remain on rice and peanut production, electricity and transportation rates, and consumption prices of bread, cement, petroleum products, rice, sugar and vegetable oil	between July 1982 and January 1985 a 21 % increase of SMIG; freeze of SMIG since 1985 hasn't necessarily prevented negotiated increases in formal production sectors	since 1984-85 progressive reduction of global deficit due to stabilization of spending and increase in tax revenues, with a reduction in level of payment arrears	originally extensive and in debt; in 1985-86 decision to liquidate 6 enterprises and to privatize 28 of a total of 62 from which the government wishes to withdraw; performance agreements with a large number in the form of "contrat-plans" and "lettres de mission"; elimination of some fiscal exemptions	end of 1986
Chad	despite a system of price controls (partially revived in January 1986), prices in practice determined by the market, including agricultural production prices and petroleum products which are exchanged without controls	freeze of SMIG and SMAG since 1978; increase of public salaries in 1986, these paid from 1983 to 1985 at 50 % of their nominal 1967 level	from 1983-85 slight increase in revenues (better tax collection and stronger economic activity); yet with a strong increase in expenditures (military) which explains an increase in global deficit	rehabilitation program for COTONTCHAD (buys, gins and sells cotton) established in May 1986 with the support of France, Netherlands of the European Community and the World Bank	end of 1986

Source: diverse.

available there is a strong assumption that nominal salary increases in the public sector have served only to maintain existing purchasing power or to redress a situation where nominal salaries had been frozen or even reduced for several years. The situation in the private sector is more difficult to assess. For example, a freeze of the industrial minimum wage (SMIG) signifies a continuation of the salarial status quo only, in general, for these minimum wage earners. For others, the wage is often determined by collective agreement. Moreover, a wage freeze does not affect workers in the informal economy. Finally, the state can return what it takes in a different guise: wages are frozen, but wage income-tax rates are reduced, a situation which recently occurred in at least one Sahelian country.

Five countries [Table 3.1, column d] have reduced their global public deficit (on the basis of committed receipts and expenses, and before the inclusion of grants). For a sixth the deficit, construed as actual disbursements, has been reduced through an increase in the administration's payment arrears to its suppliers. The improvement in the governments' deficit position can be attributed, at least in those five cases where the deficit was real, partially to general reductions in expenditures but also to more efficient tax-collecting procedures as well as to changes in fiscal practices, in particular to the switch from specific tax rates to ad valorem rates.[5] It is rare that the increased receipts result from greater tax 'severity' in the forms of higher rates.[6]

With almost no exceptions, the countries have adopted the principle that state enterprises should be liquidated or rehabilitated and, in several cases, its steady practice [Table 3.1, column 3]. Of course, backward steps in this area are not unknown. Have we not heard of the case where the government no longer finances the operations of its public enterprises but has taken to subsidizing their suppliers instead?

The devaluation (or the depreciation) of the national currency in real terms is a measure that many consider an integral part of a

structural adjustment program. There are even those who consider that it is the only element of conditionality that counts.

The motivating argument is that if the national currency is over-valued then, on one side of the economy, there is a tendency to import too much while the producers, on the other side, will be disinclined to export since their return as denominated in the national currency is so small. Moreover, if exports prices are fixed in the national currency at a level to please the exporters then the over-valuation of the currency will diminish the external competitiveness of these products since they are clearly too expensive. A devaluation cures this problem.

A devaluation will increase the cost of imports in national currency and diminish the cost of exports in foreign currency. At the same time, it permits producers to earn more national currency per dollar, deutsch mark, pound sterling of export. The expected consequense of a devaluation is the movement of factors of production (capital, labour, etc.) towards import-substituting and export-producing activities where products have experienced a faster rise in prices following the devaluation than those goods and services which are not traded internationally (perishables, construction services, administrative and domestic services, etc.). This devaluation must, of course, be real not nominal. If prices for domestic goods increase at a greater rate than the devaluation, then importers and exporters have no reason to change their behaviour: local products will not be any more attractive compared to their foreign counterparts and the real return of exporters will not have improved nor will their competitive position be strengthened.[7] It is clear that the country which chooses to devalue must, as well, closely monitor its rate of inflation.

But is the devaluation approach guaranteed to succeed? Some claim not since, even where there is real devaluation, economic agents may

react weakly to price changes· the same quantity of more expensive foreign goods are purchased, while available exports are fixed. Export demand does not react to price changes in the foreign currency. And, these sceptics warn, domestic inflation is not easy to control. It is difficult for both government and enterprises to refuse salary increases to workers whose basket of basic consumption goods has become more expensive following the devaluation. It is also difficult for the central bank to refuse the state treasury the additional loans needed to finance the increased cost of the goods and services required by the administration. To the extent that production costs may increase significantly it is not even clear that the export industries which often rely on foreign suppliers for production inputs will see their competitive position improve following the devaluation.

In all, it is a delicate task to predict the effects of a devaluation. It is an equally delicate problem to measure these effects. What can we say about these matters in the Sahel?

There is certainly a great diversity among the exchange rate regimes of the Sahelian countries [Table 3.2).

The best known in the region, at least on the institutional level, is the regime with fixed parity with the French franc. Five countries follow this regime with the CFA franc as the national currency: Burkina Faso, Mali, Niger, Senegal and Chad. The rate of exchange is tied to the French franc at the rate 1 F.F. = 50 F. CFA. Any nominal appreciation or depreciation of the French franc with respect to another currency results in an equal rate of appreciation or depreciation of the CFA franc with respect to this currency. So the CFA franc mirrored the 14.6 % appreciation of the French franc against the U.S. dollar during the year ending December 31, 1986.

However, even if a country with the CFA franc does not control its nominal exchange rate, it does not follow that the exchange rate does not

TABLE 3.2

Sahelian Exchange Rates Classified by Degree of Flexibility

Country	National Currency	Exchange Rate Regime	Exchange Rate on 30/06/87 (in $ U.S.)
Burkina Faso Chad Mali Niger Senegal	franc CFA	fixed parity with French franc 1 F.CFA = 0.02 F.F.	305.275
Cape Verde	Escudo	rate established using a basket of currencies other than the DTS	73.545
Mauritania	Ouguiya		75.26
Guinea-Bissau	Peso	managed float	238.98[1]
Gambia	Dalasi	free float	7.05565

[1] on 31/12/86.

Source: I.M.F.: Exchange Arrangements and Exchange Restrictions 1987 and I.M.F. Bulletin 07/09/87, Washington, D.C.

have any impact on its competitive position with another country that chooses the CFA franc as a national currency.

First, the two countries may not share the same commercial partners to a similar degree, if at all. Each country has in effect its own nominal exchange rate. Known as the effective nominal exchange rate, it is a weighting of the exchange rate of the CFA franc (equivalently, the French franc) vis-a-vis the exchange rates of the country's principal trading partners. Since each weight reflects the relative importance of a country's trading partners, there is no reason to suggest why the effective nominal exchange rates of two countries sharing the CFA franc should be the same. As well, the two countries may have different inflation rates. Here, we must add the domestic inflation rate to the appreciation rate calculated using the nominal exchange rate (alternatively, subtract the inflation rate from the depreciation rate) to obtain the real appreciation (depreciation) rate. (So if domestic inflation is 6 % and the CFA franc has appreciated 14 % with respect to the dollar, real appreciation is 20 %; if it had depreciated 14 %, real depreciation would have been 8 %.) There is no reason to suggest that the domestic rate of inflation is the same across all countries sharing the CFA franc.

A recent study with restricted circulation calculated the real effective exchange rate (that is, the effective exchange rate adjusted for inflation) from 1970 to 1985 for a sample of countries belonging to the two monetary unions using the CFA franc, namely the Western African and the Central African. Our five Sahelian countries were in the sample that included as well the Republic of Central Africa, the Ivory Coast and Togo. The results are clear. With the exception of Chad and Togo, all the countries experienced a real appreciation of their national currency from 1974-85. If the ratio of the indices of 1985 and 1974 is used to indicate this appreciation, a rank ordering is obtained with Mali first in the Sahel followed by Senegal, Burkina Faso and Niger.

Has such an appreciation of their currencies had a negative effect on the countries concerned?

At a colloquium, organized at the end of 1986 at the Université Clermont I in France to compare the economic performance of the African countries under the CFA franc regime with countries with other exchange-rate regimes, at least one study concluded that there were no significant differences. And, didn't one Sahelian country with a CFA franc currrency obtain a new structural adjustment loan early in 1987 with the approval of the international community? But any comparison between countries inside and outside the CFA franc zone must be interpreted with caution. A country's position outside a fixed-parity monetary zone does not immediately bestow on it a 'good economic policy', just as membership in such a monetary regime does not preclude the adoption of structural adjustment measures. The approval obtained by the country that received the new structural adjustment loan was not without reservation; at least one lender was concerned by the erosion of the competitive position of the country's manufactured exports as well as by the high level of protection required for domestic irrigated agriculture.

It may be concluded that the fixed-parity regime of the CFA type makes structural adjustment more difficult and undoubtedly more painful as well. When a country doesn't have control over its nominal exchange rate, the required reduction of wages needed to achieve a desired result must be greater than when the exchange rate is controlled. Budgetary discipline must be stronger. Perhaps a mechanism of nominal devaluations that are either disguised or partial could be implemented to achieve greater exchange-rate flexibility; but only at a high administrative cost with significant opportunity for fraud as the experience with export subsidies demonstrated.

Cape Verde and Mauritania have their exchange rates fixed with reference to a basket of the currencies of their most important trading partners. So the exchange rate for the escudo and the ouguiya, even if

they are stated for simplicity's sake in terms of the U.S. dollar, are in fact effective rates.

The escudo was regularly depreciated between 1981 and 1986. It is difficult to determine whether this depreciation was real, since we have few analyses of its impact on the performance of the Cape Verde economy. Mauritania's ouguiya appreciated nominally by 3.9 % in 1982 and 5.6 % in 1983 but depreciated regularly in subsequent years [8.8 % in 1984, 21 % in 1985; the tendency continued in 1986]. The real depreciation naturally was not as high [3.5 % in 1984 and 17 % in 1985]. The improvement of the Mauritanian balance of payments due principaly to an increase in fish exports coupled with a mild drop in imports is generally credited to this depreciation. Custom receipts also increased once import tax rates were converted to an ad valorem rate. It seems that Mauritanian officials are convinced of the benefits of depreciating the ouguiya and are presently commiting themselves to a programmed process of successive devalutations of their national currency.

The exchange rate regime of Guinea-Bissau's peso is quite similar to that of the currencies of Cap Verde and Mauritania. The essential difference is that the exchange rate is not set in regard to a basket of currencies specific to Guinea-Bissau but with reference to the basket of currencies underlying the computation of the value of the SDR [U.S. $, D.M., yen, F.F. and pound sterling]. From 1978 to December 1983, the peso's rate of exchange was maintained at 44 pesos to the SDR. On the 23rd of December 1983, it was devalued by 50 % and subsequently by 1 % each week. With the absence until recently of a domestic price index for Guinea-Bissau, it is impossible to determine whether this depreciation was real. Nonetheless, it is tempting to conclude that the abrupt depreciation in 1983 was partly or entirely responsible for the doubling of the value of exports in 1984 along with a diminution in the growth of imports to 3 %.

Gambia's exchange rate regime is a model, even a dream, for the 'purists' of devaluation. Once a week since January 20, 1986, Gambia's

commercial banks have participated in a foreign currency auction organized by the Central Bank. The exchange rate of the national currency, the dalasi, is freely established by supply and demand. The Central Bank does not intervene in the rate setting.[8] At the time of the inception of this system the estimated difference between the official value of the dalasi and its value in the parallel market was 35 %. This difference had all but disappeared by mid-1986 along with the parallel market itself. During this period (beginning to mid-1986), there occurred a nominal devaluation of more than 50 %, or 40 % in real terms. One can attribute a lessening of the import - GDP ratio as well as an increase in custom receipts in 1985-86 to the depreciation of the dalasi. The assessment is more difficult in the case of exports, 70-80 % of which are comprised of peanuts and peanut oil. The world prices for these products fell in 1985-86 and Gambian supply suffered as well from drought and cryptogamic diseases. As a result, exports did not increase from 84-85 to 85-86; in fact, they fell.[9]

There are measures other than devaluation which can affect foreign trade. They may involve quantitative restrictions on imports, fiscal surcharges to reduce imports, state commerce and different export regimes. The Sahelian countries' initiatives in these areas, as listed in an official IMF publication, are summarized in Table 3.3. It is not always clear how to interpret the nature and impact of these measures. On August 4 1986, Senegal reduced the subsidy rate for exports. Should the reduction be viewed, as does the IMF publication, as a trade liberalization measure? Or, should it not be construed as a backward step in the structural adjustment efforts of a country which, unable to effect a generalised devaluation, had implemented an alternative approach?

4. NAGGING QUESTIONS

On the basis of the information presented in the preceeding two sections, there is no doubt that a certain form of structural adjustment

TABLE 3.3

Trade Measures Adopted by the Sahelian Countries in 1986[1]

Country	Quantity Restrictions on Imports	Fiscal Surcharges on Imports	State Commerce	Export Regime
Guinea Bissau	—	—	the private sector can participate in external trade of all products except the importing of cereals, petroleum products and pesticides (13/08/86)	exporters may keep 50 % (for traditional goods) and 100 % (for others) of their foreign currency receipts to finance their imports (13/08/86)
Mali	simplification of the system of import licensing (13/02/86)	—	—	abolition of export licenses export except for cereals (18/11/86)
Senegal	suppression of restrictions on all imports of products not locally produced (28/02/86), on most competitive products (04/08/86) and on wrapping products	reduction of the normal tariff from 40 % to 30 %, of the additional tariff form 50 % to 35 % and of the special tariff from 75 to 65 % (14/08/86)	—	reduction in the rate of export subsidies (14/08/86)

[1] As reported in the annual IMF publication: Exchange Arrangements and Exchange Restrictions, 1987, Washington, D.C.

is taking place in the Sahel. It is premature, however, to speak of a point of no return, since fundamental questions concerning the process still remain. These questions are not necessarily limited to the Sahel so that the beginning of answers may be discovered in the longer or older experiences of other countries which have also implemented structural adjustment programs.

> Do the measures and reforms included in a structural adjustment program favor or impede economic growth?

In posing this question, we are evidently worried by those structural adjustment measures concerned with stabilization which limit the volume of domestic credit or public investment demand. In short, would not insufficient lending or public investment curtail growth?

The methodological difficulties surrounding the measurement of the impact of a structural adjustment program are well known: should one compare the state of affairs 'after program' with the situation 'before program' or the circumstances' with program' to those 'without program', etc.[10] The Swedish economist Thorvaldur Gylfason has examined, in our opinion the most rigorously, the effects of structural adjustment programs on a country's economic growth. His work was concerned with the impact of stand-by agreements with the IMF which is indeed very pertinent since the Fund is generally reproached for favouring reforms via conditionality that have depressing effects.

Gylfason compared the economic performance of thirty-two countries which had signed stand-by agreements with the Fund from 1977-79 with ten countries that had not signed such agreements.* There were nine

* Credit Policy and Economic Activity in Developing Countries with IMF Stabilization Programs, Princeton Studies in International Finance, no. 60, Princeton University, Princeton, New Jersey, August 1987.

countries in the first group from Africa south of the Sahara (Congo, Gabon, Ghana, Kenya, Malawi, Sierra Leone, Togo, Zaire, Zambia) and three in the second group (Liberia, Senegal, Tanzania). Combining the comparisons 'after-before' and 'with-without', Gylfason concluded on the basis of statistical tests that the growth-rate performance of the signing countries was not significantly worse than that of the countries that had not signed such accords (in fact, all the countries experienced at the end of the 1970s a slow-down in growth from the second oil shock). The author suggests that other measures included in the stand-by agreements (for example, devaluation) allowed signing countries to contain the depressive effects that could have ensued from limiting demand and domestic credit.

However, it is evident that if one wished to apply such tests to Sahelian countries it would be necessary, at least from the statistical perspective, to 'control for' rainfall, the evolution of the prices of certain basic products (peanuts, cotton, iron ore, uranium, etc.), since the growth of these countries can be strongly affected by external shocks originating in a capricious Nature or the international market.

> Do measures and domestic reforms included in a structural adjustment program favour or impede social equality?

The social cost of structural adjustment is at issue here. It is feared that budget cuts will affect the supply of basic government services in education and health. It is feared that in the absence of price controls the living standard of the masses will deteriorate badly. It is feared that a shrinking public service will contribute significantly to rising urban unemployment.

Y. Huang and P. Nicholas suggest that: 'the costs ... of adjustment can be lower in the poor countries of Africa than in heavily

indebted countries with intermediate revenues, notably Latin America'.* They argue that in Africa, "the poor live primarily in a rural environment. Those employed in the public service, in industry and in urban services are generally among the least poor. In this context, a devaluation linked to trade liberalization and the opening of agricultural markets is intended to increase the average income of the poor and make them more efficient. The losers tend to be essentially the higher-income, urban groups who had previously benefitted from privileged access to protected markets and to the exchange market. In Latin America, the social cost of this type of adjustment measure risks being higher since land is concentrated in fewer hands and a good number of the poor are urban workers with low revenues who are the most affected by the rise in food prices".

What Huang and Nicholas write of all of Africa applies as well to the Sahel. The rise of agricultural prices, the reduction or limited increases of real salaries in the public sector have undoubtedly strengthened the equitable nature of the distribution of incomes between the rural and the urban in the Sahel. Nevertheless, the article ignores an African dimension: there are also urban poor including those who escaped from farm drought, and the relatively high income of public servants working in an urban environment is often paltry given the expectations of this segment of the population, often the most receptive to foreign consumption styles.[11] The 'urban poor' are the particular preoccupation of UNICEF, ILO and of certain bilateral lenders willing to grant direct aid in goods or currency to the poorest in the cities. U.S. financing of the reintegration of civil servants to more directly productive activities is one response to a social cost of structural adjustment which could readily evolve to a political threat if the cuts in the civil service were too extensive or if the loss in purchasing power was judged unacceptable.

* 'The Social Costs of Structural Adjustment', Finance and Development, vol. 24, no. 3, June 1987, pp. 22-24.

A recent document with internal circulation written for a multilateral financing organization and concerned with the social impact of structural adjustment suggests that among the disfavored the 'poorest' be identified. These have income levels which do not permit the purchase of sufficient food to maintain a basic standard of health: while they spend up to 80 % of their meagre incomes on food, they are unable to satisfy for sustained periods 80 % of their dietary needs. The 'poorest' have no means of production (land, tools, etc.), no professional qualifications and are, in general, illiterate. The document suggests that to the extent that these 'poorest' should be viewed as an under-used resource capable, for example, of working on food-producing projects, both urban and rural, with high-labour itensity, it is necessary that a structural adjustment program not make their condition even more precarious. In particular, budgetary restrictions required by the program should avoid the reduction of spending on preventive health care (including nutrition programs for infants), primary education, small food crop projects or the improvement of shanty towns. Finally, food aid directed to the poorest should be tied to small production projects in order to let them develop a modicum of production methods and capacity. Here we may add that a better knowledge of the non-structured or informal sector activities (called 'tradi-modern' by the Zairean economist Kioni-Kiabantu) would facilitate the discovery of project ideas insofar as these activities are probably the best response to the local supply and demand conditions.

> How long should structural adjustment take? Should certain reforms and internal measures precede others?

Structural adjustment should be completed in seven years, or so thought the World Bank initially. As we have seen, Turkey is the only country in the world that seems to have met this prescription.[12]

Our opinion is that while structural adjustment can not always be completed according to this timetable, it would be dangerous to view it as a 'long' process. The measures usually associated with structural adjustment (contraction of demand, devaluation, disciplining of the public sector) must by nature be implemented rapidly so that the groups affected by these measures do not have the time to construct and implement defensive mechanisms.

The timetable of measures and reforms continues to be relatively arbitrary since it does not rest on rigorous foundations. There is agreement, however, that stabilization and disciplining measures should precede efficiency and liberalization measures, somewhat as if the IMF stand-by agreement should precede the structural adjustment loan from the World Bank.

How can it be established that conditionality has been respected?

Lenders unanimously support the objective of a simple conditionality which is easy to verify. At the request of the Group of 24, an international work group created in August 1986 and led by Ethiopia's Minister of Finance, Mr. Tesfaye Dinka, took up the analysis of IMF programs from the perspective of structural adjustment.[13] After they had examined the nature of the conditionality attached to the Fund's loans, the work group deplored that the conditions concerned both the objectives and the instruments of economic policy and recommended that in the formulation of conditionality more emphasis be placed on policy objectives [to reduce the trade deficit by 20 %, for example] than on policy instruments [changes in the exchange rate or custom duties, etc.]. The report adds that only if the objectives are systematically not achieved is it necessary to examine the instruments used, that is the validity of the economic policy itself. This recommendation which bears a family resemblance to the principle 'the end justifies the means'

would, if implemented and according to the available evidence, eliminate much of the current complexity surrounding conditionality. But the approach obviously presupposes that the borrowing countries have the minimal ability to conduct macroeconomic policies to attain the desired objectives. Do the lenders to the Sahelian countries share this presumption?

> Are governments which borrow in the name of structural adjustment convinced by its underlying principles?

This question is not completely within the province of the economist. The political scientist as well as professional analysts of the state's psyche have more to contribute.

Anecdotes abound. A high-ranking Sahelian official is said to have remarked to a visiting European that 'structural adjustment is a foreign concern, not ours'. All such stories, however, point to the same dilemma: how can officials be asked to implement structural adjustment programs which effectively deny these same officials their material advantages and tarnish the traditional prestige they own 'as guardians of the state'?[14] Some of the backward steps that have been observed in the application of structural adjustment programs in the Sahel and elsewhere have already been traced to this dilemma. Another type of dilemma ensnares the central administrator who establishes mutual obligation contracts with public enterprises in the name of structural adjustment; the enterprise has respected its obligations (cutbacks, restructuring, etc.) but the administrator does not have the funds to meet his side of the undertaking.

One of my African friends who has travelled widely on the continent is convinced that any country in the region would immediately

abandon its structural adjustment efforts if it discovered an abundant resource which was highly valued on world markets. But wouldn't this be a universal response? It is perhaps wiser on this matter to allow the interested parties to express themselves. Some of them wonder whether structural adjustment which comprises measures that bear exclusively on internal reforms is not in fact an economic tactic to delay the emergence of the new 'international economic order' so long discussed and anticipated.

5. CONCLUSION

The Sahel has seen progress in structural adjustment as measured by the growth in available financing as well as by the number of economic reforms and policies adopted by the countries themselves. Comparative studies increasingly reveal that growth in this area is not necessarily choked by structural adjustment programs. As far as equity is concerned, the destiny of the urban poor remains problematic. There is also the non-trivial challenge of simplifying the formulation of conditionality. On the other hand, the commitment of Sahelian administrators to structural adjustment could be overestimated, once it is realized that the adjustment necessitates a loss of both prestige and the trappings of prestige.

There is at least one lesson to be drawn by the lenders. The financing of structural adjustment in the form of aid to the balance of payments must be accompanied by more specific actions. In the Sahel, such actions should focus on the cost of adjustment for the urban poor, on the necessity of strengthening the state's capacity for macroeconomic management and on the need to substitute concrete alternatives for the loss of privileges and prestige suffered by the civil servants as a result of certain adjustment measures. This third preoccupation may appear incongruous to some lenders. But it is altogether legitimate to the extent that lenders have generally had neutral contacts with local

administrators in their discussions of structural adjustment. Their discussions now have more immediate, personal impact.

Finally, lenders already know that structural adjustment financing is not a subsitute for development project financing. These two types of financing remain complementary, particularly in very poor countries. Indeed, the deflationist bias of structural adjustment remains too strong to withdraw support for measures which increase supply.

NOTES TO THE TEXT

1 At the outset, it was envisaged that the World Bank's support for structural adjustment would take the form of five successive loans, each paid out over a period of a year to a year and a half. Structural adjustment was to be completed in five to seven and a half years. As well, the disbursement of each loan could proceed in tranches, the second tranche supposedly arriving four months after the signing of the loan. In reality, by the end of fiscal 1986 only Turkey among twenty countries had received five loans over a period of about five years. Among twelve instances of loans where the payouts had been planned in tranches, only once was the four month delay for the second tranche respected (in two cases the second tranche wasn't deposited until twelve months later). Based on a sample of ten beneficiaries, the World Bank's structural adjustment credits financed an average 21 % of the current external deficit with a range of 8 % to 35 %. For more details see the evaluation prepared by the World Bank: Structural Adjustment Lending: A First Review of Experience, World Bank Report No. 6409, Washington, D.C., September 24, 1986.

2 The stand-by agreement that a country signs with the IMF permits it to use ('draw upon') the upper tranches of its quota with the IMF to borrow ('purchase') currencies; in general, the disbursement period is one year and the payback ('repurchase') is five. To learn more details on IMF operations, see the Annual Report, the fiscal year ending April 30. It is possible to obtain a bimonthly update from the IMF Bulletin.

3 Founded in March 1986 with funds provided by the earnings of the IMF Trust Fund (itself created using the returns from the sale of gold deposited at the IMF by member countries), the SAF originally let an eligible country receive 47 % of its quota over three years with the installments made in three annual tranches (20 %, 13.5 %, 13.5 %) depending on the progress made by the country in its structural adjustment reforms. Press communiqué number 87/24 released by the Fund on July 24, 1987 (IMF Bulletin, August 3, 1987, pp. 225, 237) reports the Board of Directors' decision to allow a country to increase its drawing from 47 % to 63.5 % of its quota and to increase the second tranche from 13.5 % to 30 %. Recourses to the SAF must be jointly approved by the IMF and the World Bank.

4 Unlike the stand-by agreement (and the extended facility used by Senegal from 1980 to 1983), the supplementary facility allows a country to borrow above its alloted quota with the IMF. Created in 1979, the mechanism has a bonus payment account which is financed principally by loan re-embursements to the IMF's Trust Fund account and by voluntary contributions, with Saudi Arabia by far the largest donator on April 30, 1986. In August 1987, the resources of the bonus account increased by 29.1 million SDR which raised its level to 297.6 million (IMF Bulletin, September 7, 1978, p. 241).

5 In the particular case of Gambia which witnessed a significant external depreciation of its national currency (see below), the general adoption of an ad valorem tax rate on imports played an important role in the improvement of the state's budgetary situation. With CIF price of imports (in national currency) increasing after the depreciation, the application of a fixed-percentage tax rate yielded higher custom receipts per dollar, D.M. or franc of imports. For total customs receipts to increase, the demand for imports must evidently be price inelastic, with the price to be considered here the domestic price in national currency tax included.

6 Commissioned by the CILSS and the Club du Sahel, an unpublished study by the tax expert Carl Shoup had already shown that by the end of the 1970s the member states of the CILSS (Guinea-Bissau was not then included) had tax rates among the most severe in the world - but this nominal severity did not always produce commensurate tax receipts.

7 Except if there was what economists call monetary illusion. In such an instance, an economic agent is fooled to some extent by nominal price changes; for example, an exporter who increases his supply to foreign markets because he receives more F. CFA, peso, dalasi or other currency per dollar exported and overlooks the increased cost of imported production inputs which leaves his real return constant. On this point, the reader should consult the stimulating article by W. Max Corden: 'The Relevance for Developing Countries of Recent Developments in Macroeconomic Theory', The World Bank Research Observer, vol. 2, no. 2, July 1987, Washington, D.C., pp. 171-88.

8 The Central Bank could easily find it timely to intervene if it concluded that the commercial banks were colliding to fix exchange rates. For details on this type of floating exchange regime found with variants in Ghana, Guinea, Nigeria, Sierra Leone, Zaire and Zambia, see the well-documented study by P.J. Quirk, B. Christensen, K-M. Huh and T. Sasaki: Floating Exchange Rates in Developing Countries: Experience with Auction and Interbank Markets, IMF Occasional Paper, no. 53, Washington, D.C., May 1978.

9 The situation seems to have been different in 1986-87, the Gambian peanut having fetched the high supported-price in Senegal.

10 The methodological difficulties of analysing the impact of structural adjustment programs have been carefully examined by Morris Goldstein and Peter Montiel: "Evaluation of Trend Stabilization Programs with Multicountry Data: Some Methodological Pitfalls", IMF Staff Papers, vol. 33, June 1986, pp. 304-334.

11 Stabilization measures risk not only reducing the real salaries of civil servants but restricting as well their accustomed quantity of supplies and materials.

[12] See note number 1, above.

[13] The entire text of the working group's report was published in a supplement of the IMF Bulletin, August 7, 1987.

[14] Richard Sandbrook, a political economist at the University of Toronto, is particularly interested by the link in Africa between the state and the traditional system of tribal chiefs. See "The State and Economic Stagnation in Tropical Africa", World Development, vol. 14, no. 3, pp. 319-32. Some African experts disagree with Sandbrook's views. They claim that African decision-makers behave like their counterparts in the North in the evaluation of the costs and benefits of domestic reform programs.