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the European Parliament

DEVELOPMENT PROBLEMS IN AFRICA

Medium- and long-term view

COM(86) 179 final

I. GENERAL BACKGROUND AND OBJECTIVES OF THE COMMUNICATION

The particularly critical economic situation facing the African countries has led the United Nations General Assembly to convene for the end of May a special ministerial session to be devoted in particular to discussion of the structural and long-term aspects of what must truly be termed the "African crisis", so stubborn are the continent's problems.

The special session will look at ways in which the international community can help Africa find its way once again to the path of growth and economic progress. It is a major opportunity and one which must not be missed. The Commission accordingly feels bound to present to the Council, in the form of this Communication, a set of ideas and proposals¹ with a view to the establishment of a common Community position on the main problems whose solution will determine, directly or indirectly, Africa's future economic prospects. The Commission hopes that, on this basis, it will be possible to achieve broad agreement at international level.

Although dealing principally with the problems of Sub-Saharan Africa, the following analyses and proposals apply also, mutatis mutandis, to the Southern and Eastern Mediterranean countries. In the particular case of North Africa, the Commission would draw attention to the Communication which it presented to the Council in September 1985 on guidelines for economic cooperation with the Mediterranean countries, which provides data for an analysis of the situation in those countries and sets out guidelines for financial and technical cooperation.

1. Africa is currently facing a major crisis, which threatens not only its development prospects, but also its very substance in terms of economic, physical and - ultimately - human resources. The continent will have over 1 000 million inhabitants soon after the end of this millenium and currently accounts for two thirds of the World's poorest countries. It has to be admitted that the policies implemented by the African countries in the wake of their independence failed to produce growth. Over the recent period Africa's growth rate, which has been especially low during the last decade, has been markedly slower than growth in the developing countries generally.

¹ These analyses and proposals are developed in detail in an annex to this Communication.

At the same time, whilst beset by external economic circumstances, Africa has witnessed a considerable deterioration in its overall trading position, which has progressively deprived it of a substantial share of the external earnings that are vital if it is to import those items required in order to maintain its productive capacity.

The opening of disparities between demographic and economic growth and between external competitiveness and import requirements has created a situation which, in a large number of countries, has resulted in food shortages which have been drastically exacerbated by the successive periods of drought. The latter have in turn accelerated the process of desertification, a problem that has been growing for a long time but which has now attained proportions which threaten the biological future of the continent.

2. The Community, which has long been linked to Africa by a comprehensive and contractual system of cooperation, has been constantly alert to the growing problems of Europa's neighbouring continent. It has, accordingly, mobilized the resources and means at its disposal in order to help the African countries towards recovery in the most effective possible way.

Taking into account the worsening economic situation of its partners, the Community, on the occasion of the renewal of the Lomé Convention which is the principal framework for its relations with the countries of Sub-Saharan Africa, laid particular stress on the need to achieve self-reliant development, implement food strategy adapted to the specific features of the countries concerned, encourage the rehabilitation of viable areas of productive capacity and undertake systematic measures to combat desertification.

In line with this approach, the Community is pursuing its efforts to match food aid to development needs,¹ endeavouring to ensure that it is implemented with a view to the requirements of the future through programming to bolster food strategies, the judicious use of counterpart funds and the implementation of triangular operations.

¹ According to the guidelines contained in the Communication of 24 March 1983 from the Commission to the Council.

In so doing, the Community has not lost sight of the need, which no one would contest, to ensure the immediate survival of the population; this issue was addressed first in the Dublin Plan and subsequently in the reactivation and rehabilitation plan which seeks to improve the immediate response capacity of those countries most threatened, should there be a serious recurrence of drought.

3. However intense and sustained the Community's own efforts, these cannot by themselves provide a total solution to the crisis which Africa is experiencing. Europe's action has to be planned and understood within the context of international efforts which can themselves also be influenced and reshaped by Europe in the interests of securing the recovery of the African countries.

This is possible, however, only if Africa demonstrates its own commitment to economic recovery by adopting a realistic development strategy and if it is capable of adhering to it. There have been signs of a shift in the right direction, not only in the recent positions adopted by several African countries but also in previously expressed OAU/ECA views - which have had a substantial influence in the shaping of the Community's own operations - and the discussions conducted within the same forums in preparation for the forthcoming special session of the United Nations General Assembly. On the basis of this observation, the Commission concludes that a concerted approach to Africa's problems by Africa and the international community is feasible.

The question is, therefore, what is expected of the African countries and how should the international community respond to the crisis facing Africa ?

II. COMMITMENT REQUIRED OF THE AFRICAN COUNTRIES

In the Commission view, Africa has to commit itself to a development strategy based on the position that, fundamentally, the African crisis is primarily a crisis of production.

This strategy requires a reform of internal policies, or an acceleration of such reform if already initiated, so as to ensure the effective utilization of all available resources. This presupposes a reversal of established trends which can be successfully achieved only if realistic sequences of measures are adopted, taking into account the time required to remove the constraints affecting Africa's economy and society.

1. To create - or recreate - the necessary financial base for development, priority must be given to the restoration of existing productive capacity and, taking into account the structure of African economies, action must be concentrated on the rural sector in general, with special emphasis on food security objectives wherever the need is apparent.

In countries where mining is a major activity, it is important to maintain this sector's capacity to contribute to future development, assuming that it passes the test of economic viability. In addition, in the case of middle-income countries, in North Africa particularly, it is important to remember the development contribution of well-organized and uninterrupted industrialization.

In this context, the prime consideration in other fields must be to maintain existing achievements and, in particular, ensure the operation and maintenance of economic and social infrastructure. New projects should be chosen with scrupulous care, on the basis of clear social and economic objectives, such as improving communications with areas of endemic drought, and of the value of their contribution to the development of productive capacity.

2. This "relaunch" phase would soon reach its limits if immediate steps were not taken to lay the foundations for development of a more diversified, more self-reliant and more modern kind : more diversified through being based progressively on industrialization and production of services : more self-reliant, through encouragement for the creation of small businesses with a view to increasing trade between branches of industry on the basis of a better-integrated pattern of regional trade - in this respect it is not possible to overstress the positive role of Monetary zones -; and more modern, to the extent that it should be backed by improved technical training and scientific research matching the needs of the countries concerned.

This pattern of development presupposes that the countries succeed in putting their national economies in order and in restoring their financial base.

3. Long-term considerations should obviously not be excluded from the future development strategies of the African countries, faced as they now are with the challenges of population growth and the deterioration of their natural resources. Whatever the steps they take, the scale of the problems is such that it is clearly a case for international cooperation. The Community is ready to contribute to what needs to be done in these two spheres.

In the context of the development strategy just outlined, the effectiveness of the recovery measures required will depend in the first instance on the capacity of the countries concerned to undertake the necessary reforms and pursue them with sustained commitment: this means reforms in the various sectors of the economy, and also changes in public administration such as reforms of parastatal undertakings and decentralization. These will call for courage and determination on the part of the political authorities, because there is a social price to be paid for greater selectivity in deciding priorities and such reforms can conflict with established interests as well as holding back certain social improvements.

These reforms would be facilitated and their effects expedited if the international community were to back them up, notably in terms of trade and financial assistance. There is an awareness of the urgency and gravity of the problems in this regard ; it is vital that this awareness be translated into concrete commitments without delay.

III. THE INTERNATIONAL COMMUNITY'S RESPONSE

In the Commission's view, this response should be related to the problem from three separate standpoints : trade and raw materials, financing and debt and, lastly, adaptation of aid systems.

1. In the trade sphere, the central problem is the decline, especially sharp since 1980, in the purchasing power of African exports, particularly exports from Africa's poorest countries.

The need, therefore, is to try and preserve, consolidate and, where possible, increase the export earnings of a continent whose products are no longer competitive and which, moreover, is witnessing a contraction of its markets, which are chiefly those for raw materials.

At a time of falling prices, the solution must be to diversify production, improve marketing and achieve higher productivity. In this context, one must stress the importance of an early implementation of the second window of the Common Fund in order to facilitate structural measures of this type.

Conscious of the potentially negative impact of seasonal or cyclical price fluctuations, the Community reiterates its firm support for price stabilization agreements, provided that these are conceived realistically, in that they do not run counter to the long-term trends of the various markets for the products concerned and contain provisions to allow for flexible but effective application of the necessary adjustment.

Where price stabilization agreements are not possible, the Community supports the idea of "market intelligence services" to improve knowledge of the markets.

As regards IMF compensatory financing, the Community sees this as of fundamental importance in the near future and recommends easier access to such financing in view of the significance for low-income countries. It also advocates that other developed countries set up forms of assistance similar to Stabex in order to help African countries, at any rate the least developed among them in terms of the United Nations list of LLDC's.

Quite apart from commodity problems, it is important that African countries should be able to export manufactures and that they should have reliable access to developed country markets. Access must be liberal and guaranteed, both in the context of existing commitments and with a view to the forthcoming multilateral trade negotiations.

2. According to World Bank estimates, if African countries are to acquire sufficient import capacity to ensure their growth on a sound basis, there will have to be between now and 1990 a marked increase in the financial resources made available, and for poor countries these should come chiefly from a combination of increased aid and debt adjustment.
 - (a) Where official assistance is concerned, it is clear that the only way to increase aid for Africa, without a corresponding reduction in aid to other underdeveloped continents, is through an increase in the overall aid effort. The Commission would mention in this connection the 0,7% of GNP pledge which few countries have so far honoured.

As part of this overall effort, an increase is recommended in the contributions to those multilateral organizations best placed to finance structural adjustment. The Commission is concerned at the way discussions on IDA VIII have gone so far, since even on the best assumption they would do no more than maintain the current value in real terms of the previous IDA (plus the special facility for Africa), already considered to be very inadequate.

The Commission welcomes, however, the decision taken in Seoul to use the resources of the IMF's Trust Fund in order to help poor countries with serious balance-of-payments problems. On the question of how such resources should be used, the Commission recommends an improvement in the financial terms offered (grace period and maturity) and that lending take place in close collaboration with the World Bank.

- (b) Non-concessional resources should also be increased ; they offer opportunities for middle-income African countries in the short and medium term and over the longer term in the case of other countries, as the basic conditions for these countries' development improve. In this context, the European countries concerned should help to get the 'Baker Plan' type of scheme speedily under way so that bank lending can be resumed (at least three African countries are among the eligible recipients).

A key factor which will determine whether private banks are prepared to make further loans to debtor countries will be the public sector's willingness to assume its share of responsibility, for example by aiding the World Bank's efforts to increase its capital and through a new, more rapid and more coordinated use of export credits.

- (c) Direct investment not leading to a build-up of debt and accompanied by relevant knowhow should once again be encouraged. The Commission would take this opportunity to emphasize the responsibility of host countries to create a favourable climate for such investment and, in turn, the duty of investors to ensure that their projects tie in with national development plans. In this connection it supports the commitments made in the third Lomé Convention, where the Community and the ACP States recognize the need to accord fair and equitable treatment to investors, to create clear and stable conditions conducive to their participation in development efforts and to maintain a predictable and secure investment climate.

The Commission considers that the flow of investment can only be facilitated by multilateral guarantee systems such as the Multilateral Investment Guarantee Agency (MIGA); it recommends therefore that all industrialized and developing countries sign the convention providing for the establishment of this Agency.

- (d) The Commission considers that there will be no solution to the financial problems of many debtor African countries unless measures in addition to increased aid are taken to ease the debt burden. Such measures should form an integral part of a credible adjustment programme and respect the principle of working on a case-by-case basis on account of the wide diversity of debt situations among African countries. They should, however, entail general improvements in the relief measures adopted (multiannual reschedulings on better financial terms, greater consistency and complementarity of creditor/donor activities) and entail more radical solutions in the case of certain countries where traditional relief measures would be insufficient, for example, a reactivation of the UNCTAD (1978) resolution on retroactive terms adjustment. It would also be necessary to ensure that, at the very least, no bilateral donor becomes a net recipient of resources from African countries undertaking credible reforms.

In this respect it is necessary to underline the importance and the responsibilities of the "Club de Paris" in the rescheduling of the debt due to public creditors, being aware of the fact that this constitutes the dominant part of the debt of the poor countries of Africa.

In general, the activities of of the industrialized countries in the framework of debt rescheduling should be inspired by the following two principles :

- a) to ensure that, at the very least, no bilateral donor becomes a net recipient of resources from African countries undertaking credible reforms.
- b) to guarantee that debt relief terms take account of the need for the countries concerned to maintain a sufficient level of imports in order to reactivate their growth.

The Commission would also draw attention to the amount by which the poor countries are in debt to the IMF, as this situation would result in the countries concerned making net payments to the IMF within a few years. The Commission feels that this situation should be remedied and proposes, first, that the IMF make more use of three-year programmes and take more fully into account any temporary setbacks ; and, secondly, that where net transfers to the IMF cannot be avoided, consideration should be given to offsetting them by additional operations on the part of the World Bank group.

3. Besides the quantitative aspect, it is essential that developed countries adapt their aid systems to the new realities facing Africa.

- (a) This adaptation should be carried out on three fronts simultaneously, i.e. the developed countries should :
 - (i) improve the quality of their aid by granting easier terms, greater coverage of local costs and, untying of aid, at least on a stabilized basis. A larger share should be used in the form of rapid-disbursement financing and, more generally, as non-project aid in support of economic reforms ;
 - (ii) concentrate aid on the top priority sectors and thus try to achieve the critical mass which will give the aid the necessary effectiveness.
 - (iii) strengthen aid coordination at all levels (financial consortia, consultative groups, operational coordination).

(b) Such coordination, in order to be accepted and succeed, depends on two basic principles :

- (i) political transparency of the process, guaranteeing to the recipient country that it retains control and that the adjustment programmes are conceived in a spirit of 'dialogue';
- (ii) greater self-discipline - among donors and recipients alike - in connection with the action programmes adopted, ruling out tempting schemes which might be commercially attractive but have no priority in terms of development.

IV. CONCLUSIONS

The following conclusions are to be drawn from the foregoing analysis :

1. The first prerequisites for the revival of the African economies are the reforms of national macroeconomic and sectoral policies and a change in methods of political and administrative management ; failing these the African countries will not be in a position to draw maximum benefit from a recovery of the world economy or from increased foreign aid ;
2. The industrialized countries can make a major contribution to the success of these internal reforms in the African countries by pursuing coordinated measures which link up (in the areas of trade, finance and foreign debt) with the international economic situation and by increased, more flexible and better-coordinated official development aid.

It is in this context of interdependence and co-responsibility that the notion of an agreement between Africa and the developed countries on the framework and the principles of the measures to be taken for the economic revival of the continent takes on its full significance as a reference point which should help stimulate reciprocal commitments and make for a conjunction of both sides' efforts. Such an agreement must reaffirm the idea of ongoing dialogue between donors and recipients, a dialogue which guarantees both respect for the social and economic choices of the African countries and the effective and cohesive utilization of the resources at their disposal.

The Commission considers such an agreement would be eminently desirable and could be concluded on the realistic bases which it proposes. Thereafter however, the Commission believes, it would need to be carefully monitored. This could be done through bodies already in existence (UNDP Round Tables, IBRD/IMF Development Committee, Lomé Convention bodies, etc.) which would evaluate work and progress on a regular basis in the light of the guidelines and principles on which the agreement was based.

At a time when the whole of the international community is about to turn its attention to Africa's critical difficulties, at the special session of the United National General Assembly, the Commission feels that it is essential to point to the extreme urgency of the need for speedy decisions to enable Africa to pull out, before it is too late, from the economic morass in which it is sinking, as a prior step to making a solid start at last along the road to progress and modernity. This aim constitutes a response to a call for solidarity which the Commission cannot ignore ; what is of equally fundamental importance, however, is the fact that it corresponds to an obvious political necessity, namely the need to forestall the establishment on this neighbouring continent of a permanent area of turbulence and tension, the mere existence of which would imperil the stability of the world.

ANNEX

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BY THE COMMISSION

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Table

Some basic data concerning Sub-Saharan Africa (SSA)

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Chapter I - OBJECTIVES AND PRIORITIES OF AFRICAN DEVELOPMENT

1. The crisis in Africa

The elements of the crisis facing Africa are well known: a fall in real terms in per capita income which today is no higher on average than in 1960, a decline in per capita food production (20% in 15 years), export purchasing power no greater in 1984 than in 1960 for non-oil-exporting countries, deterioration of the economic and social infrastructure, of the natural environment, and so forth.

There is no single explanation for this situation: climatic unpredictability and the uncertainty of the world economy have played a part; but the chief factor has been the difficulty in reconciling the high social and economic expectations born at the time of national independence with the constraints attendant upon the administration and availability of technical and financial resources. The policies applied have in some cases been excessively ambitious, paying little regard to the need for gradualism, an excessively large role for example being accorded to state and bureaucratic management financed from excessive burdens placed on two traditional sectors, agriculture and mining. The "other" kind of development, as advocated for example in the Lagos Plan - and to which Africa legitimately aspires - has not been able to take root under these circumstances, given the lack of gradualism in policy implementation. The challenge for Africa is especially daunting when one considers the major problems affecting different parts of the continent: for some countries, a delicate ecological balance and climatic uncertainty; for others, a threat to their national cohesion; for all, the explosive growth rate of the population which, if uncontrolled, will more than double the number of people between 1980 and 2010.

2. Basis for dialogue

The OAU has asked the international community to assist and complement its own efforts to deal with these grave problems and reactivate the development process. A decision on the form of such assistance naturally requires the prior establishment of "action programmes", whose objectives and priorities must be accepted by the various parties involved. The European Community considers that such an accord should emerge out of a permanent "dialogue" in which the African countries are assured that their choices and priorities will be observed, and in which external partners are given an equal assurance that the resources which they provide in support of the efforts of the countries concerned will be put to effective use. It is in the light of these considerations that this Communication seeks to establish the right lines for a development strategy for Africa.

3. Realistic sequences of development measures from the present to the long term

The long-term development objectives to which the African countries have collectively pledged themselves were set out in the Lagos Plan of 1980. The OAU Declaration of July 1985 on the "Economic Situation in Africa" goes further and seeks to determine intermediate objectives tenable in the face of current constraints and thereby ensure a bridge between the present and the long term; the Declaration makes a valid analysis of the situation and endeavours to outline realistic sequences of measures in an attempt to smoothly bridge the short-, medium- and long-term situations.

The Community largely endorses this analysis in its broad outline. Without discussing here every single feature, we would like to underline a number of principles which we consider of prime importance for the definition of a development strategy, while at the same time - and in a spirit of dialogue - introducing some qualifications in the assessment of priorities.

3.1 The general scheme of African development

A realistic sequence of measures necessarily involves three separate aspects: the objectives which the African countries have set themselves, the constraints on their freedom of action, and the time factor which determines the speed at which it is possible to loosen the constraints and introduce other development measures.

The structural dimension of the situation and the fact that the extreme shortage of financial resources will be resolved only gradually mean that there must be constant attention to:

- (i) greater rigour and efficiency in the use of existing financial resources;
- (ii) internal policy reforms: macroeconomic (realistic exchange rates, control of inflation, etc.) and sectoral (pricing policy to give producers incentives, availability of inputs for producers and also consumer items, efficient credit and marketing systems, etc.). Reforms not only in terms of planning but also management methods (institution building).

The financial bottlenecks which stand in the way of development will disappear only if priority is given to the restoration of existing productive capacity (agriculture, livestock production, fisheries, mining) in terms of both external and internal (food) market. The starting-point must be Africa's indigenous expertise and experience, from which can be built up the financial basis for its own development.

Measures in other sectors, for example economic infrastructure, should within this period of 5 to 10 years be restricted to the essential, i.e. to what is necessary in order to ensure the functioning of productive systems (e.g. feeder-roads, energy supply) and meet major socio-political requirements (e.g. corridors to improve access to Central and Southern Africa roads to improve links with major drought-prone areas to which year-round access must be guaranteed, etc.).

The same type of reasoning holds for social policies (education and health), for which the prime consideration must be to consolidate existing facilities. In order to meet the growing demand for social services, there is no alternative other than to:

- (i) reduce capital and operational unit costs by devising simpler but efficient systems (e.g. greater stress on preventive medicine);
- (ii) increase resources by having the population assume responsibility for an increased proportion of the capital and operational costs of the systems involved: for example, through development microprojects combining the resources of local communities with those provided by the state, by requiring that the direct beneficiaries of social services pay for such on a pro rata basis according to their contributory capacity, etc.

In the medium and short term, the bulk of resources will therefore be spent on restoring existing productive capacity. However, it is also necessary now to lay the foundations for an "other" type of development looking ahead to the longer term; this means preparing Africa to compete in the modern world, helping it to diversify its productive capacity (industrialization and services) and become self-reliant whilst at the same time coping with its most serious problems: soaring population growth and the increasingly rapid deterioration of its natural resources. The rate of policy implementation in these areas will depend primarily on the speed with which Africa can restore its productive base and subsequently work gradually towards the achievement of a number of prerequisites, for example, regional integration, scientific research,¹ and administrative reform.

¹See, in this connection, the Commission's proposals concerning the development of endogenous research capacity.

- The general principles set out above should, in the Commission's view, serve to provide a coherent thread for programmes of measures for the African countries, naturally to be adapted to the needs of each specific case. It would be useful, however, before discussing the problems of Africa's external environment, to go into some detail with regard to individual aspects of the overall picture, namely the problems of industrialization, regional integration, the soaring population growth rate and desertification.

3.2 General priority for rural development

3.2.1 There is a consensus that the rural sector overall should receive general priority in terms of development. Special emphasis however should be placed on food production with a view to achieving greater food security; it will thus be possible also to reduce, if not halt, food imports intended chiefly for urban consumers.

- . To this end, food strategies, which have already produced encouraging results in some countries, must be set in action; this will often involve a reform of pricing, credit and marketing systems as well as of food consumption habits; such reforms will often mean striking a delicate political balance between the needs of poor urban consumers and of producers who, without sufficient incentives, prefer not to produce a marketable surplus.
- . The methods used to implement rural development policies are obviously important. Hence, where possible, the smallholding will be the principal development pattern, both on grounds of efficiency and income distribution among a population representing between 60% and 80% of the total. Such smallholdings should be encouraged to attain maximum self-reliance within cooperative or village associations, thus taking the responsibility off the shoulders of official bodies.
- . The development of the rural economy, if it is to take off and be sustained, necessarily depends upon a favourable economic environment (transport, supply of inputs, marketing and also contributions from other sectors, in particular rural and urban craft industry, etc.). Furthermore, the basic approach to such development must involve an awareness of the need to conserve the soil's natural fertility and this will often entail the introduction of more advanced production methods.

3.2.2 However, this general priority accorded to agricultural development does not mean that one should ignore the other immediate opportunities offered by mining, a very important sector which accounts for the bulk of export earnings and tax revenue in a number of countries.

However, the outlook for this sector in African countries is not bright at present, given the decline in their competitiveness and the resulting risks in terms of loss of market share.

Priority must therefore be given to the rehabilitation of production facilities and the rationalization of mining activity with a view to ensuring viability and competitiveness. This must be accompanied by improved management of mining revenue, having regard to the sector's medium and long-term prospects and those of the whole economy, and backed up by renewed exploration activity so as to ensure that international investors and users take due account of Africa in their planning.

Clearly, such plans must wherever possible provide for the local processing of mineral products, where this is compatible with the economic return of a given project.

3.3 Long-term economic development prospects

3.3.1 Industrialization: a necessary stage in the development process

The type of growth now required would rapidly reach its limits without recourse to industrialization. It is not possible for long-term development to be based purely on agriculture and on exports of raw materials for which the market prospects are modest. Hence, industrialization targeted primarily to Africa's needs is ultimately a necessary stage in the development process.

Here again, certain conditions must first be created such as external economies (economic infrastructure, technical training), regional integration permitting product specialization and competitiveness without excessive dependence on external markets, creation of a favourable climate for foreign investment in order to attract the necessary capital and, in particular, technical and managerial know-how.

Thus, there is no question nowadays of imposed industrialization programmes; rather, it is essential systematically to prepare the ground for industrialization geared to African conditions and needs. The principal guidelines should be as follows:

- (i) Job creation must be an objective; imported industrial models prove ineffective for this purpose and it is necessary instead to do everything initially to create and improve small businesses and artisanal or "informal economy" activities, in town and country, with a view to increasing trading between branches of industry and thereby establishing a genuine industrial fabric. In this context, the opportunity costs of certain modern industries may be very high;
- (ii) competitiveness must be a prime objective even if initially some protection of infant industries is justified; a degree of export orientation is to be recommended, but generally speaking it will be better to follow a mixed strategy with the emphasis placed on national and regional markets before attempting to export in a big way.

3.3.2 Regional cooperation and intra-African trade

3.3.2.1 The Lagos Plan demonstrates how the self-reliant, more independent kind of development - and this especially in the case of small, poor countries - requires regional integration. The creation of numerous regional bodies is confirmation that the different countries endorse this view. Such bodies clearly fulfil a need, though it would be useful in some cases to see a certain grouping together or, at least, a sharper definition of the terms of reference.

Experience would indicate two complementary courses of action:

- (i) functional regional cooperation in search of ad hoc solutions to joint problems, with a view to achieving economies of scale or reducing the cost/effectiveness ratio of certain projects (specialized institutes, etc.). This approach also represents one route towards economic integration proper through the creation of regional infrastructure, particularly in terms of transport, telecommunications, research, energy, etc.
- (ii) the formulation of common policies, leading in particular to the creation of common markets (e.g. preferential areas). This is the most ambitious but also the most difficult course because reconciling interests is even more difficult in the case of poor countries than where industrial nations are concerned.

3.3.2.2 It is in the context of a move towards general economic integration that the specific problem arises of the development of intra-African trade, which currently represents a mere 4% of the total trade of the sub-Saharan African countries.

Admittedly, there can be no quick elimination of the structural obstacles to such trade: weak export production, insufficient effective demand, poor complementarity of national economies and outward-oriented trading and transport systems.

However, one can at least commence now the process of policy reorientation, for example by giving prominence to regional specialization features in the development strategies of each country (e.g. maintenance of existing, trade links, including "informal economy" ones, between Sahel-Sudanic zone and coastal countries, lowering of tariff barriers (e.g. PTA), currency convertibility measures).

In addition to institutional or general measures (e.g. greater scope for private initiative), mechanisms to encourage trade could be introduced aimed at achieving, for example, bilateral barter agreements, or regional mechanisms involving local currency payment (clearing houses), consolidation of export credit and guarantee institutions, regional coordination of industrial policies and complementarity-oriented food strategies.

There is one area at all events in which regional trade could develop extremely quickly, namely trade involving food products going from areas with a structural surplus to areas with a structural deficit; such trade could be initiated and backed up by triangular food operations.

Triangular operations to increase the exchange of experience and technical assistance in the development field could be encouraged between the African countries themselves and between Africa and other underdeveloped parts of the world. In many spheres (e.g. reforestation, the "green revolution" and artisanal industry), Africa can learn from the successes and failures of others and the Community is willing to support this type of "cross-fertilization".

.4. Threats to long-term stability: population and environmental protection policies

By way of background to its structural economic problems, Africa is faced with the twin challenge of a soaring population growth rate and the deterioration of its natural environment, desertification being the extreme form of such deterioration.

3.4.1 Implementation of appropriate population policies

In Africa the population growth rate is already very high (averaging around 3% annually) and may increase further in the years ahead as a result of simple and inexpensive preventive medical treatment becoming more widely available.

At this rate, the growth of population - which will have doubled in 25 years - will place subsequent development at risk in that there will be a necessary call on saving and investment resources in order just to ensure the survival of the newcomers, thus reducing sharply what is available to ensure the growth of per capita income. Under these circumstances, there is little chance of a natural transition whereby the process of development itself, by bringing about a change of mentality, will check further population growth. To break this vicious circle is therefore a matter of urgency.

The situation has already become very serious in many areas or countries where a major imbalance is apparent in the population/resources ratio (in the context of current production technique, a situation which cannot be quickly changed), with all that this implies in terms of poverty, over-exploitation of the natural environment, excessive migration of the rural population to the towns, etc. At the same time as speeding up general development action as far as possible, it is therefore vital to put into effect specific population policies so as to:

3.4.1.1 Ensure a more even pattern of settlement, primarily through spontaneous migration, making sure that the manner in which new land is cultivated preserves the soil's natural fertility. Where migration does not take place spontaneously, because of natural obstacles or socio-cultural factors, people may be persuaded to move by favourable reception conditions (e.g. offer of land concessions, sundry assistance for migrants or property rights in return for undertakings by migrants on proper resource management).

Experience has shown that officially-aided programmes of this sort are generally difficult and costly, so much so that as often as possible priority should be given to measures intended to increase yields in the area of origin and organized migration should only be considered in extreme cases as a "safety valve". At all events, care must be taken to ensure that this type of migration is organized voluntarily - people should be encouraged to leave, not forced out - and that properly planned and organized facilities are provided on arrival.

If these conditions are fulfilled, Community support could be given to policies designed to assist migration. Such policies should concern themselves also with improving the urbanization process and should aim to maximise the positive effects through, for example, the development of secondary towns.

3.4.1.2 Concentrate on convincing the population of the need to have fewer children and, where such awareness exists, for example in the towns, ensure easier access to family planning services in the context of mother and child welfare programmes.

It is essential at all events that African governments transform their political awareness (see Arusha programme) into appropriate action as a matter of top priority. The Community, for its part, should support such programmes where expressly requested by its partners and on the condition that any action in this sphere respects the freedom of choice of the families concerned.

3.4.2 Measures to combat deterioration of Africa's natural resources

Africa's critical situation has come about in the context of an alarming deterioration of its natural resources (declining soil fertility, erosion, increasing destruction of plant cover). This general phenomenon assumes an extreme form in the case of the desertification process at work in arid areas. It is as it were the backcloth to the drought and food shortage situations in Africa. The phenomenon, which cannot be reversed, needs to be dealt with very urgently, both in terms of its indirect causes (increasing needs, unsuitable cultivation methods) and direct causes (deforestation and soil erosion). To eliminate this phenomenon therefore means rethinking the whole development problem, rural development in particular, and doing this will be a complex and long process.

The gravity of this problem, which threatens the future of Africa, spurred the Milan European Council to propose a European plan to combat desertification, to which "all European aid, Community and bilateral" will give "priority ... and long-term commitments, and ... organize their contribution coherently by setting up an appropriate coordination structure". This is the basis of the Commission's Communication (COM(86)16 final of 22 January), in which it sets out proposals for action; these are due to be discussed by the Council on 17 April.

4. Administrative reforms

Naturally, this outline of a development strategy for the medium and long term gives no more than general guidelines to be used by individual countries when drawing up their action programmes. The rate at which they are implemented and the priorities will obviously depend on each specific situation, notably each country's political and administrative capacity. These are three essential points here.

1. The awareness of the need for reforms must be converted into the political will to undertake them. This is a fundamental point, as more carefully chosen priorities and better administrative methods will both go against established interests and delay the response to the people's legitimate aspirations, particularly as regards social infrastructure. Political authorities will therefore require a great deal of courage and determination.
2. Economic operators (grass-roots communities, entrepreneurs, tradesmen, etc.) will have to assume greater responsibilities. If local people, particularly women in some cases, are closely involved in the operations concerning them, they will be implemented more effectively (particularly in the rural sector, social infrastructure, craft industries and SME, etc.). The part played by local NGOs in this connection can be extremely valuable.
3. However, in order to encourage and back up this participation by the local people, the administrative authorities must provide the people with appropriate advice and motivation and divest themselves as much as possible of their executive tasks. They should delegate work rather than doing it themselves. Before this readjustment can be achieved, there will have to be a reform of quasi-public companies and administration will have to be decentralized and strengthened at grass-roots level.

The various countries will have to pay a high price, particularly in social terms, for this political and administrative reorganization. Unless it is carried out, however, even the best policies will have very little chance of coming to fruition.

5. The international economic environment and external aid

All these internal efforts to bring together the various policies and reform administrative methods could be facilitated and speeded up if the international community provided the appropriate back-up in the following fields:

- (i) Trade - where Africa, particularly south of the Sahara, is currently out on a limb. It needs to be helped to deal with falling prices for the raw materials which are its main exports. It needs to be helped to participate more fully in international trade in a more open world trading system where its comparative advantages could be exploited (Chapter II).
- (ii) International financing and debt - with a view to ensuring that economic and social development can recommence on a more stable basis (Chapter III).
- (iii) Official development assistance (ODA) in particular - which should not only be increased but also tailored to the new development realities (Chapter IV).

There should be a clear and verifiable link between the reforms which African countries are in the process of applying, to varying degrees, and the corresponding forms of support from the international community.

Chapter II - TRADE AND RAW MATERIALS

The African crisis is basically a production crisis - Africa is losing traditional market shares to other developing countries - which has been aggravated since the end of the seventies by a deterioration in the terms of trade. In spite of a number of economic successes, the purchasing power of the exports of non-oil-producing African countries has tumbled, especially since 1980. The purchasing power of oil-exporting African countries has also dropped considerably more recently.

It is in this context that we should interpret the debt problems which are now taking on crisis proportions. At the present time the export earnings of Africa's low-income countries are so small that two thirds go towards debt repayments alone, plus the purchase of food and petroleum products (in insufficient quantities). It is therefore impossible to establish growth dependent on inputs imported in every-decreasing quantities.

Hence, in order to solve the problem of Africa's external financial resources, three coordinated campaigns should be waged on the following fronts: (a) trade, particularly in raw materials, (b) debt and (c) development finance. Hence, the target to be reached, as a means of backing up the reforms of the internal policies of the countries themselves, is the raising of the import capacity of these countries to the level of their development requirements, by acting on the above three parameters.

The question of export earnings will be tackled first of all from the point of view of international trade in general (access), and then from the point of view of raw materials. It is the latter which in the short and medium term is the most important for most African countries, at a time when there is a trend towards lower prices for most commodities.

1. General trade problems

A serious problem faced by the African countries is that of access to industrialized country markets. Access must be liberal and guaranteed, both in the context of existing commitments and with a view to the forthcoming multilateral trade negotiations.

- (a) The first task is to consolidate existing agreements and commitments relating to African exports. The extremely liberal preferential trade arrangements which the Community grants to nearly all products from African countries under the Lomé Convention and the Agreements with the Mediterranean countries are an essential part of the stability African countries need. In this spirit, and in order to allay its partners' concerns, on its enlargement a political commitment was undertaken by the Community to ensure that traditional trade flows from non-member Mediterranean countries were maintained. In accordance with the Council's mandate, the Commission is currently negotiating the detailed implementation of this undertaking with the countries concerned. The Community is aware, however, of the trade impact of enlargement of the 'preferential' countries, notably the Mediterranean countries. For this reason it has suggested ways of maintaining traditional trade flows. On a more general level, protectionist pressures are a constant danger, and it is important, particularly for North Africa and the middle-income countries of Africa south of the Sahara, that all the partners in the trading system abide by the GATT undertakings concerning the status quo and the dismantling of trade barriers.

Ideally, in order to facilitate the geographical diversification of African exports, other industrialized countries should also improve their generalized preferences schemes for those products of particular importance to Africa and should make them easier to use, by the introduction of cumulative origin for instance.

- (b) The new MTN negotiating round, the preparatory stage of which is now under way, opens up new prospects for the liberalization of trade and the growth of the world economy. It is essential that the African countries, whose exports must be stimulated by this growth, take an active part in these negotiations, given their specific interest in tropical products and agricultural products. During this new round the Community will make every effort to preserve the preferential treatment now granted to African countries for their traditional exports.

One of the lessons which the Community has learnt in its preferential trade relations with Africa under the Lomé Convention is that access, however liberal, cannot on its own lead to growth and the diversification of exports. If the African states wish to make effective use of the advantages available to them and the concessions they demand, it is up to them to create the economic conditions likely to stimulate private initiative, encourage export-related activities and put an end to the various types of distortion which are undermining their competitive position.

2. Commodities

The situation on the raw materials markets, which are Africa's main source of export earnings, is a matter of serious concern. Not only are the terms of trade for African goods continuing to deteriorate, but the medium-term prospects are far from brilliant. The recent tin and cocoa crises and the vagaries of the coffee market are examples of the general difficulties facing raw materials price stabilization systems. On top of this there is the oil crisis, which is seriously hindering the development of African exporting countries, which have, moreover, run up large debts.

There are very few ways of halting the decline in the price of raw materials. In any case, this is not the function of product agreements, whose main objective is to even out excessive cyclical price variations. Compensatory financing is meant only to absorb cyclical fluctuations in export earnings from raw materials and cannot provide genuine solutions to structural price movements. This is the case with both Stabex, which compensates for any fall in export earnings as a result of short-term contingencies, and, at a more general level, the IMF's compensatory financing system.

It should be noted that the Stabex system has certain more advantageous features, particularly for the least-developed countries, as Stabex transfers take the form of grants. In this field it is important to stress the advantages of a special facility such as Sysmin, which is designed to help reorganize mining production capacity where it has suffered for various reasons, particularly after a long spell of falling prices.

Moreover, the trade preferences granted to ACP raw material producers do not seem to be enough to compensate for the drawbacks in their situation.

Hence, the problem of African raw material producers can be resolved only in the context of an overall approach to the question of commodities. This overall approach involves commodity agreements, compensatory financing and measures to encourage diversification and productivity.

2.1 Price stabilization agreements

In spite of the reservations which have been expressed regarding the validity and viability of this type of instrument, and which have recently been heard more strongly in the light of certain developments (tin and cocoa Agreements), when price stabilization agreements are designed in a realistic manner (i.e. involving prices which are in line with long-term market trends and clauses are included providing for flexible but effective adjustments), it can be said that price stabilization agreements are still useful for a number of commodities.

Hence, the Community should:

- (i) confirm its interest in price stabilization agreements for those products and markets which are suitable. If agreements are disturbed by structural surpluses or if they are jeopardized by the development of competing substitute products, the Community should propose that in-depth discussions be held between all the partners, so that new or amended agreements can be drawn up which take into account the interests of all the parties concerned. Similarly, the Community should strive for the maintenance of forums for dialogue, so that what has already been achieved under the agreements which are currently being called into question can be consolidated;
- (ii) declare itself in favour, for this type of agreement, of the promotion of reference or quotation currency units which are not so liable to fluctuate as some of the currencies in traditional use, whose erratic movements have contributed to market disturbances. In this respect, the use of baskets of currencies for quotations and/or in contracts could be usefully discussed, bearing in mind the advisability, in the long-term, of an explicit reference to the ECU;
- (iii) support the idea of establishing "market intelligence services", where it seems to be impossible to draw up product agreements containing price provisions. Thanks to these "market intelligence services" it should be possible to obtain better information on market levels and trends, and consequently attenuate the risk of costly investment decisions and development programmes for certain products. Where necessary, these intelligence services could be organized on a regional basis.

2.2 Compensatory financing

The Community could confirm that IMF compensatory financing is a great asset to African countries, as it means that the effects of the unstable situation on their balance of payments can be reduced in general terms. Some thought could be given to allocating financing more flexibly to back up the necessary reforms in the production sectors concerned and improve access for all the producer states concerned.

The Community should advocate the extension of the Stabex system to African states by means of other industrialized countries adopting similar and parallel systems. This system is particularly useful for poor countries, as it involves very favourable repayment terms and, for the least-developed countries, grants.

It goes without saying that the improvements to Sysmin in the third Lomé Convention, with the emphasis being laid on the utilization of resources for the benefit of the sectors concerned or their diversification, take on special importance in this context.

2.3 Diversification and productivity

The Community considers that product agreements, compensatory financing and trade preferences are no substitute for greater competitiveness in the production and marketing of raw materials, through diversification, horizontal and/or vertical so that one product is not relied on too heavily, and in the longer term, other productive activities, such as industry and services. This calls for a sectoral and comprehensive approach: it is in this context that we should interpret the efforts of providers of funds to ensure that their loans or aid contributions bring about policy reforms in the sectors concerned, the aim being that, in periods of austerity, internal taxation and foreign exchange allocation systems take more account of the need for the viability and profitability of existing production systems.

In the wider context of existing agreements, or agreements being negotiated, aimed at R&D and making the production of certain goods more competitive, the Community should also stress the advantage of implementing in advance the second "window" of the Common Fund for Commodities, in accordance with precise arrangements to be specified at the appropriate time, bearing in mind the discussions now being held in connection with preparations for UNCTAD VII.

Chapter III - FINANCING AND DEBT

1. Financial contributions and debt problems

Over the last few years Africa as a whole, and sub-Saharan Africa in particular, has received a sustained flow of concessional resources, which, although it has increased, has not been nearly enough to compensate for the decline in financial flows at market rates since 1982. For sub-Saharan Africa, the total contribution of net external resources fell by 25% between 1980-82 and 1984, in spite of numerous debt relief operations, the effect of which is estimated at an average of \$2 500 million per year for 1983 and 1984. At the same time, the net annual contribution of IMF resources decreased - through the combined effect of a reduction in purchases and an increase in repurchases - from \$1 200 million in 1980-83 to \$600 million in 1984. It is highly likely that this contribution was negative in 1985. It will almost certainly remain so in the next few years.

These developments took place against a background of increasing debt problems, which in many cases have reached crisis proportions. However, the situation is far from being uniform, both from the point of view of the degree of debt and from that of the debt structure. Thus, in sub-Saharan Africa there are countries with an ex-ante servicing/export ratio of well below 15%, and sometimes even 10%, alongside countries for which this ratio is sometimes much more than 50%. For some countries most of the ex ante servicing on the public debt is owed to commercial banks, while for others the lion's share goes to bilateral public creditors, such as the DAC, OPEC or the eastern bloc countries. In certain cases payments owed to multilateral bodies concern mainly the IMF, in others the World Bank Group or the OPEC bodies.

However, the above figures are not necessarily an indication of the payments actually made (ex-post servicing). Even for countries going through a debt crisis such servicing is not very high and sometimes even less than that of countries which service their debt regularly - following the accumulation of arrears (evaluated at \$11 600 million for the end of 1984) and numerous debt relief operations (36 operations in 17 countries between 1980 and May 1985, to take only multilateral operations involving public creditors).

The real problem faced by sub-Saharan countries is the result of two other factors: the relatively large - and increasing - share, particularly for the poorest countries, of payments owed to multilateral creditors and, secondly, the cost in terms of development resulting from the process which ex-ante servicing becomes ex-post servicing. There is also the unpredictable way in which resources become available once they have been freed by debt relief operations.

- (i) On average for the years 1986 and 1987, 37% of the public debt servicing of all countries eligible for IDA assistance will be owed to multilateral creditors (1985: 33%), of which more than half (20%) to the IMF, which in certain cases will absorb 40% to 50% of the payments to be made. In absolute terms, the average amount for 1986 and 1987 to be transferred to multilateral bodies by these countries will be about \$2 100 million (i.e. nearly twice the amount for the years 1983 and 1984), of which \$1 100 million to the IMF alone. According to World Bank estimates, payments owed to multilateral creditors will remain at this level for the rest of the '80s.
- (ii) As multilateral bodies never take part in debt relief operations, these payments cannot be rescheduled. Moreover, in most cases extended arrears to multilateral bodies, which are more likely in Africa than elsewhere, lead to the automatic suspension of disbursements from any credits committed and also often block any further contributions. Arrears owed to the IMF, in particular, block any further assistance, and consequently debt relief operations. Sudan and Liberia, which were recently declared ineligible for IMF resources because of their arrears, are cases in point.

African countries, and the poorest countries in particular, therefore run greater risks when they accumulate arrears. At the same time, a smaller proportion of their debt can be relieved, as in this case no relief can be provided except through the granting of further credit.

- (iii) It is impossible to quantify the economic cost of the non-payment of ex-ante servicing. A number of mechanisms are involved, and the more "under-developed" a country is, the more seriously it is affected. Long before payments cease, long-term financial management is diverted to short-term management, and uncertainty about the future makes any coherent policy-making difficult, or even impossible, so that stop-gap measures have to be taken. As soon as arrears start accumulating, imports become more expensive, as suppliers include a premium for belated payment in their prices, any imports made are subject to the availability of finance, so that investment programmes are often distorted, preference being given to the setting up of new capacity rather than the maintenance or rehabilitation of existing capacity. In order to "legalize" the situation, rare human (and financial) resources are used up in numerous journeys, reports and negotiations with creditors.

- (iv) Finally, the method currently used by public creditors for the relief of multilateral debt does not seem to fit the situation of many of the debtor countries of sub-Saharan Africa. In the first place, relief operations are often undertaken too late - only after the harmful effects described above have begun to be felt - once significant arrears have accumulated. This is mainly the fault of debtors,¹ who refer to their creditors too late, although Resolution 222 (XXI)¹, which was adopted in September 1980 on the initiative of the EEC after long negotiations both within the CIEC and UNCTAD, offers any country which believes it has difficulties involving debt the possibility of referring to its creditors and donors "at an early stage, when, in its judgment, the problem involving indebtedness exists or is likely to emerge".
- (v) All too often these operations are carried out with a short-term financial view, as if it were merely a matter of getting over the hump of one or two difficult years. In most cases, therefore, the consolidation periods are from 12 to 18 months, often only partially geared to the future. Moreover, high rates of interest are applied to the rescheduling/refinancing of non-concessional loans (including public export credits or those guaranteed by the public sector), which are sometimes higher than the initial rates. Thus, in many cases the problems are simply carried forward to the future. There is a succession of renegotiations (sometimes at intervals of 18 to 24 months). The resources made available are too unpredictable and span too short a period of time for them to be integrated into an economic restructuring programme, where a medium-term view is required. As a result, too much emphasis is often laid on measures to restrict demand.

2. Approach to be adopted

If there is to be a return to lasting growth in sub-Saharan Africa, the implementation and indeed the pursuit, of strict adjustment policies will be required of African countries. To back these efforts, there will necessarily have to be a considerable increase in the financial resources allocated to the countries which undertake them. The chances of this strategy succeeding would be improved by a better international environment, with higher export earnings and lower interest rates.

2.1 The necessary adjustment

The need for policy reforms is recognized by an increasing number of sub-Saharan countries. They also acknowledge their past mistakes and their obligation to honour external debt commitments (see OAU Declaration).

¹The implementation of which was requested by the OAU in its Declaration of July 1985.

At this point they should not be discouraged by a lack of response from donors and creditors and their adjustment efforts should be backed by adequate financing. The kind of adjustment to be made should take account of each country's individual situation. In some circumstances short-term stabilization measures will probably still be necessary. On the whole, in view of the fact that the problems are basically of a structural nature, the adjustment process should be made as long as possible and measures should be geared to increasing supply rather than reducing demand. The contributions of donors and creditors should be tailored to this requirement.

2.2 Mobilization of external resources

The mobilization of external resources should take account of the indebtedness of sub-Saharan countries and the special problem raised by repurchases from the IMF. In this respect the principle advocated by the World Bank, that no bilateral donor should be in a situation of negative net payments in relation to countries making genuine adjustment efforts, seems entirely relevant and should, in the Commission's view, be confirmed by the Member States both at the next meeting of the IBRD/IMF Development Committee and at the Special Session of the General Assembly.

2.2.1 Concessional resources

According to the World Bank, for the period 1986-90, the concessional resources allocated to those countries eligible for AID, not taking into account any future debt relief, should come to at least \$11 000 million per year (gross payments), which is an increase of nearly 70% compared with 1980-82.

In view of the substantial ODA requirements of other countries, in Africa and elsewhere, there can be no such increase unless rapid progress is made towards the objectives of 0.7% and 0.15% (LLDCs).

At the Special Session of the General Assembly, therefore, the Member States should reiterate their commitment to these objectives, specifying the target date, which cannot be later than the date currently envisaged (1990). In view of the specific situation of some Member States (those with relatively recent aid programmes or which have just joined the Community) the progress to be made in this respect should be all the more rapid the

further: a donor country is from attaining these objectives. This principle was adopted in 1974 by the Council and introduced subsequently in all important international negotiations, but has been somewhat neglected for some time. In the Commission's view it has lost nothing of its relevance both within and outside the Community.

Multilateral bodies will have to play an important role in directing and financing the structural adjustment in sub-Saharan Africa. They should therefore have much more scope for action, bearing in mind that their debt relief measures can only come from fresh credit. In this context there are two immediate problems which have to be solved quickly: the eighth replenishment of IDA resources and reutilization of the resources of the IMF Trust Fund.

2.2.1.1 AID VIII

Negotiations for IDA VIII have just begun. As was planned in Seoul, they should be completed by September 1986 at the latest, in order to avoid another gap between two replenishments. However, the bracket currently envisaged at the start of the negotiations (\$10 500 million to \$12 500) seems insufficient. The figure of \$12 000 million, which is most frequently put forward as the target, would not mean any increase in real terms compared with IDA VII, (including the Special Facility for Africa) and would only be enough to enable programmes already under way to be continued. In addition, in view of the depreciation of the dollar and currency erosions in 1983, this amount would be less in real terms than the figure which the Member States advocated for IDA VII (\$12 000 million). The economic situation of the industrialized countries, taken as a whole, has shown signs of improvement since then and the African crisis has worsened.

If the purpose of the IDA is active promotion of the structural adjustment programmes required for the revival of growth in Africa - and this must be its purpose - while at the same time providing more support than has been possible over the last few years for development programmes of other countries in the world, it will require more resources. The Member States, which have already played a decisive role in the past (1984 special facilities, IDA VII Facility for Africa), should therefore make every effort to have the negotiating bracket increased.

It is very likely that, as in 1984, the United States will want to limit the amount of the replenishment. In this case the question arises as to whether, as a last resort, the Member States (and the other partners) should not abandon the present burden-sharing and accept a greater share in IDA VIII (38%, for example, which was their share in IDA VI), instead of resorting after the event to the special facilities of 1984 and 1985, which make burden sharing artificial anyway, without any of the benefits which can offset the risks for the multilateral system involved in a multitude of special facilities over a long period of time.

The question of the possibility of stiffer financial conditions for IDA loans requires careful examination in the light of the volume of IDA VIII.

In any case, the effect on the IDA cash situation will be negligible and will be felt at a much later stage. The additional burden for recipient countries - particularly if interest rates are combined with shorter grace and repayment periods - will, however, be relatively high, particularly for blend countries.

From the political point of view, stiffer conditions would constitute a misleading signal - in view of the debt problems currently facing many IDA recipients and the large number of multilateral loans to sub-Saharan Africa which cannot be rescheduled.

The alternative suggestion from the IDA, to introduce a mechanism for recycling IDA loans within the recipient country by means of a two-tier loan procedure, does, however, merit attention. Such a mechanism would not affect the interest payments to be made by the recipient government while at the same time, by involving the IDA in the allocation of the funds to be recycled, would ensure a better use of these funds for adjustment purposes.

2.2.1.2 Trust fund

The decision at Seoul and the fact that India and China have waived their entitlement to this Fund constitute an important stage in meeting the claims of the African countries, which requested the Fund's revival in the OAU Declarations.

¹In view of their contributions to the Special Facility for Africa, the Member States' share in all IDA VII + the Special Fund for Africa was 37% instead of 35% in IDA VII alone, and that of the United States was 23% instead of 25%.

It is now important that a quick decision be taken on practical ways of reutilizing this Fund, as most of the resources (2 700 million SDRs) must be allocated to IDA countries in sub-Saharan Africa.

As regards the financial conditions for the loans to be granted and the adjustment programmes to be financed, the current plans are to maintain the initial conditions (interest: 0.5%, grace period/maturity 5/10 years) and fix the duration of programmes at three years. In view of the structural nature of the problems in sub-Saharan Africa (and the special method of financing), it nevertheless seems to be preferable (and possible) to extend the grace period and the duration beyond that which is envisaged and provide for at least the possibility of longer programmes, depending on the capacity of the recipient countries to establish and support such programmes.

In view of the structural aim of these programmes and the special experience of the World Bank in this field, the reutilization of Trust Fund resources should be carried out in close cooperation with the World Bank.

Fears about cross conditionality between the IMF and the World Bank seem quite unjustified, as the overall conditionality attached to a structural package can, on the contrary, be more flexible than the conditionality arising from two separate operations.

The idea of reserving, right from the start, a specific proportion of IDA VIII for joint operations with the Trust Fund would, however, introduce unnecessary inflexibility. At the very most the idea could be accepted in exchange for considerable concessions from the United States on the volume of the next IDA package.

On the other hand, every effort should be made to gather more bilateral resources, to be used jointly with the Trust Fund, as some of these resources could be used to prefinance loans from this Fund, to which only an average of 500 million per year will flow back between 1986 and 1991. Even if these bilateral resources were not really additional, they would be more effective back-up for adjustment if they were used jointly with the Fund and the IDA.

2.2.2 Non-concessional resources

The bulk of the external resources for Africa south of the Sahara must take the form of ODA. For some countries south of the Sahara and for North Africa, however, the provision of non-concessional resources will remain as important as ever.

2.2.2.1 Bank credit

Bank credit will continue to play an essential role in a number of African countries. The Baker initiative is therefore also important for this continent - although at the present stage of the discussions only three African countries are involved. The implementation of this plan must progress more quickly than has hitherto been the case. The main factor in this respect is that the banks should regain confidence in the medium-term improvement of the creditworthiness of the countries concerned, through a credible effort on the part of the latter to adjust, and also that they should be certain that they are not the only ones to make a commitment.

As regards this aspect of burden-sharing between banks and the public sector (more important than any idea of official guarantees, which is unrealistic), the attitude of the industrialized countries to the World Bank and with regard to export credits will be significant. It should also be ensured that the prudential and fiscal rules governing provision for losses should not stand in the way of a return to the use of bank credit.

2.2.2.2 The World Bank

The World Bank's capacity for providing aid and its means of action should not be restricted by a lack of capital and artificial limits for non-project aid. It should also remain possible for the limits set for each country to be exceeded temporarily - although not beyond what is compatible with financial good sense.

An increase in capital does not seem to be an immediate requirement, and this has the tactical advantage of enabling the matter to be raised after the IDA resources have been replenished, in 1987. Pending formal agreement on this matter, the Bank should nevertheless be authorized to exceed its sustainable lending level temporarily, as soon as an agreement in principle is reached on increasing its capital.

The Member States have already said that they are in favour of an increase in the Bank's capital; they will no doubt have to confirm this in the next few months and should not spare any effort, when the time comes, in exercising sufficient pressure on the United States, since some of the latter's recent statements on the subject have raised doubts as to its real attitude.

2.2.2.3 Export credits

Export credits are a major and relatively advantageous source of non-concessional finance, particularly for relatively poor countries - because of their fixed interest rates and relatively long maturity. The volume of this type of contribution has decreased significantly over the last few years, not only as a result of a decline in demand, but also because of exporting countries' restrictive guarantee policies. The problem is particularly acute for countries which have concluded an agreement with the IMF and have been able to rearrange their debt.

It is obvious that official guarantees cannot be granted if it is almost certain that they will be needed. The Commission nevertheless considers that these guarantees should once more be given as soon as a country's financial situation has become sufficiently stable for its medium-term creditworthiness to improve.

Transparency as regards the terms governing renewed use of the guarantee should be improved. This could be achieved through more frequent exchanges of information between exporting countries, or even approximation of Member States' cover policies, and through notification of these policies to the IMF in each individual case. This would make it easier for the IMF and the World Bank to take account, in designing their programmes, of the commercial financing available in the medium term and to keep bank creditors informed where governments too are prepared to make a fresh commitment in a given country. This readiness on the part of governments could also be confirmed by a public statement by the member countries, as made by the Exim Bank in the United States recently.

The return to the use of financing by export credits - which is necessary - should be accompanied by improved incorporation of these credits in the beneficiary countries' development/adjustment priorities. The particular circumstances of the beneficiaries should be taken into account more in the selection of the operations to be financed: human aptitudes, technical capacities, ability to cope with recurring costs, requirements as regards aid for maintenance/rehabilitation, return in terms of foreign currency, etc. To that end, each transaction should be subject, in the context of closer cooperation between export credit agencies and creditor countries' cooperation ministries, to a critical examination based on criteria enabling it to be evaluated from a development point of view.

Lastly, if the World Bank's experience were called upon more systematically, or if cofinancing were even arranged with the World Bank, this would be another way of enhancing the contribution made by export credits to the financing of development.

2.2.3 Direct investment

Direct investment is potentially a valuable source of external financing which does not create debts. It can at the same time provide know-how, export markets, etc. It has been at a standstill for a number of years.

Foreign businessmen will make such investment where the political, social and economic environment is such that it is safe and profitable to invest.

The host countries must - in so far as they wish to attract foreign investment - create and maintain such an environment. Effective price formation mechanisms, realistic exchange rates, appropriate taxation systems, the creation of markets on a regional scale (particularly important in Africa, owing to the small size of the markets in most countries) and so on can all contribute to this, as can the treatment of foreign investment, from the administrative and legal aspects, on the basis of rules (and practice) which are transparent, fair and sufficiently stable to enable long-term investment decisions to be taken.

The ACP States have made a number of commitments vis-à-vis the Community in this respect in the third Lomé Convention; fair and balanced treatment of investors, clear and stable conditions, and maintenance of a secure, predictable investment climate. They should normally be expected to confirm them vis-à-vis the international community at the special session of the General Assembly, to demonstrate their interest in this type of contribution.

The investors, for their part, must adhere to the host countries' development priorities - although this does not mean having unjustified criteria imposed upon them, e.g. with regard to the origin of inputs, and they should themselves avoid methods such as bans on exports, restrictions regarding the transfer of know-how, etc.

Capital-exporting countries can encourage - within certain limits - investment flows through supplementary financing, taxation measures, the conclusion of protection agreements and the granting of guarantees. A number of measures are being examined in the framework of the Lomé Convention. The World Bank has presented for signature a Convention on the setting up of a Multilateral Investment Guarantee Agency (MIGA).

This Agency is meant to work very flexibly, so as to avoid as far as possible duplication of effort with existing national systems and so as to be able to cover types of investment which have hitherto proved impossible to cover. The Agency would have the additional advantage of securing commitment not only from the capital-exporting countries but also from the host countries - the risks would be more widely spread in this way, and the host countries more likely to behave "properly".

In the Commission's opinion, guarantee systems may prove useful. In particular, a properly established MIGA could contribute - together with an improvement in the potential host countries' economic situation - to renewed direct investment in those countries which join the MIGA. The Commission therefore considers that all the Member States should sign this Convention as soon as possible and at the same time make every effort to ensure that other countries - industrialized and developing countries alike - do the same.

2.3 More precise and verifiable commitments

Support for policies, as described in Chapter IV, calls for greater coordination of the approaches of the various donors, aid which is highly flexible and adaptable and, in accordance with a long-accepted principle at international level, aid which is more predictable, sustained and increasingly guaranteed.

The attainment of these objectives will require, among other things, an improvement in the coordination process, both at operational level and within bodies of the Consultative Group type. Within such bodies, coordination is at present frequently confined to general principles, without any more detailed definition of the policies to be supported. The promises of aid made there are often vague as regards the volume, type and rate of payment. Furthermore, they are often not honoured by the donors. The actual implementation of the development/adjustment programme, although guaranteed - at least morally - by the community of donors, is complicated by this, even if the beneficiary country honours its commitments.

A particular problem linked with the lack of more precise information on bilateral flows is the fact that it is impossible for the IMF (which is often criticized for being too short-sighted) and the World Bank to give more definite forecasts concerning the financial resources available in the medium term for a given country and to adapt the pace of adjustment accordingly. The result is often a programme which requires excessively rapid adjustment, since it has not been possible to predict more accurately the sustainable deficit.

Another problem arises in this context because in many cases debt relief in the context of the Clubs of Paris or London in fact forms part of the financing of the adjustment programmes. Even in the still fairly rare cases where there is a certain degree of coordination between Consultative Groups and creditors' clubs, there is no mechanism to ensure that both groups' working hypotheses are actually realized.

In order to remedy this state of affairs, coordination at Consultative Group level must be strengthened and expanded. The information given by donors on aid in the medium term should be as precise as the policy undertakings which the developing countries are expected to give. The activity of the groups of donors and the creditors' clubs should be better coordinated and more complementary (see above). A monitoring mechanism should be set up so that a check can be made on whether the working hypotheses of the donors, creditors, multilateral agencies and the beneficiary country are actually realized and so that - if they are not - the situation can be re-examined.

2.4 Supplementary measures concerning debt

The resources which Africa will need over the next few years cannot be supplied entirely by new credit. In its assessment of needs the World Bank assumes annual rescheduling at the rate of almost 2 000 million (principal only), just for the countries eligible for funds from the IDA. However, for a number of IDA countries, whose situation and prospects are particularly bad, more radical relief measures are required.

2.4.1 The extreme diversity of the debt situations in Africa and the need to integrate debt relief into packages for the financing of development/adjustment preclude any deviation from the case-by-case approach and make it inappropriate to adopt general measures of the type called for in the Declaration by the OAU: limiting debt servicing to 20% of exports, and of the debt itself to 30% of GNP. They would also turn an international conference on Africa's debt into an exercise without any real impact.

2.4.2 The case-by-case approach does not however prevent certain improvements from being made to operations for the relief of public-sector debt - improvements which the commercial banks have already introduced in certain cases. The fact that there is now a general consensus that the problem of debt can be overcome only by growth (a key component of which is structural adjustment, which will of necessity be a long-term operation, particularly in sub-Saharan Africa) and also the fact that debt relief has without question become, in most cases, a necessary component of development financing make it all the more necessary to introduce these improvements.

The first improvement should be the adoption of a longer-term view on debt relief. The consolidation periods should be extended further into the future, without laying down precise rules applicable to all cases.

This obviously implies that debtor countries can work out longer-term adjustment programmes - the whole set of proposals made in this document is centred on this objective, and increased technical assistance for policy planning can make a specific contribution. This also presupposes

giving consideration to the possibility that debt relief operations might no longer be exclusively linked with agreements with the IMF (which could themselves reflect a longer term view more frequently; see point 2.5), but also, and in certain cases exclusively, with structural adjustment loans from the World Bank.

The Commission considers that such an approach would meet all the requirements of the present situation in Africa; it would draw attention in this respect to the conclusions of the London Summit.

Since debt relief operations are a component of development financing, their financial terms should correspond to this function and depend more on the capacity to service the debt than on the type of credit which forms the subject of the operation.

Significant progress has already been made in this sphere, by extending the grace periods and periods to maturity, but additional improvements are needed, particularly as regards interest rate levels. These rates should generally not exceed the initial rate in the case of commercial loans and, in the case of the ODA debt, the interest rates applied to new ODA loans. It will, however, probably be necessary to go beyond these bounds in certain cases.

Lastly, creditor/donor exercises should be more coordinated and complementary.

One way of ensuring this, without undermining the prerogatives of either party, would be to hold the meetings of the Paris Club and the Consultative Groups, wherever appropriate, in conjunction with each other and in the same place. This would be made easier by the fact that in most cases the same countries and even, in some instances, the same departments are involved - a secondary beneficial effect would be the saving in cost and valuable time, and not just for the developing countries concerned.

An initial joint meeting could possibly be held to examine the development/adjustment programme to be financed, after which there would be two-way traffic between the two exercises, in order to ensure that the two parties' working hypotheses and end results were consistent. Following the close - which would take place separately - of the two exercises, a joint final communiqué could be adopted.

The monitoring mechanism referred to above could obviously apply to both exercises, and additional financing measures which might be necessary could be taken with regard to the debt, or with regard to new financial contributions.

In the case of countries in which bank debt plays a particularly important role, an appropriate method should also be found for integrating bank creditors into this process.

The Commission suggests that the members of the Paris Club should examine with the World Bank and the IMF the exact formula which could be used to attain this objective.

2.4.3 For certain IDA countries, however, even improved conventional debt relief measures will not be enough. According to the World Bank's forecasts, these countries' debt servicing costs as a proportion of export earnings will continue to increase, in the absence of special measures, over the remainder of this decade and in 1991 will still be almost 60% on average.

Most of these countries are LLDCs and so have already benefited, in recent years, from the Retroactive Terms Adjustment (RTA) of ODA, set in motion as a result of UNCTAD resolution 165 (S-IX) (1978), in the adoption of which the Community played a key role - as it did previously in the adoption of the decision which led to the implementation of the CIEC's Special Action Programme, one of the reasons for which was the debt problem.

Under the RTA, most of the present LLDCs, and in certain cases other developing countries, have benefited from measures ranging from the straightforward cancellation of ODA debt to the granting of new credit which could be rapidly disbursed. The nominal value of the measures taken can be valued very approximately at over US\$ 6 000 million, of which over US\$ 4 000 million was provided by the Member States of the Community. In most cases the measures taken comprised cancellation of the debts.

It would, in the Commission's opinion, be perfectly justifiable in the present circumstances to resume implementation of this resolution, in some cases for countries which are not LLDCs. It is a move which the developing countries have been demanding for a long time, and it is also called for in the OAU's Declaration.

A statement to this effect at the special session of the General Assembly would make a valuable contribution to its success. Every effort should be made to include other industrialized countries, although their participation should not be made a precondition.

It goes without saying that the RTA could be relaunched on a case-by-case basis, which is how it was applied originally, within the context of the member countries' aid policies. It should, however, in certain cases be extended beyond ODA and also cover export credits, in the form of concessional refinancing. There are precedents for this, for example the case of Indonesia, some of whose commercial debts were rescheduled in 1970 over thirty years, with a grace period of fifteen years, and without any interest on overdue payments.

2.5 International Monetary Fund operations

Their financial position vis-à-vis the IMF will pose a particular problem for the sub-Saharan countries in the next few years. The volume of repurchases and annual interest payments in the period 1986-90 should be, for the IDA countries alone, in the region of US\$ 1 000 million. Even if the entirety of the Trust Fund were allocated to the African countries, only part of this amount would be offset. Moreover the possibility of drawing further in future on the IMF's conventional financing facilities - doubtless necessary in some cases - seems limited, given the structural nature of the balance of payments problems of most of the IDA sub-Saharan countries and the relative expensiveness of IMF loans.

Recourse to the IMF might be facilitated if the perspective of the Fund's stabilization programmes was longer-term: greater predictability of official flows, greater transparency of export credit guarantees, greater interlocking of adjustment loans from the Bank with IMF operations with a view to an integrated package, reconciling the need for stabilization with development needs, etc. would be movements in the right direction. The IMF could - and should - therefore, where quota limits pose no problem, have more frequent recourse to three-year stand-by agreements or to programmes under its Extended Facility.

It should take greater account, in its programme follow-up and its evaluation of results as regards performance criteria, of the specific problems which the countries undergoing adjustment may encounter during the period of the programme.

If these changes proved insufficient to reverse the sub-Saharan IDA countries' adverse financial position vis-à-vis the IMF, the only solution would be to extend application of the principle advocated by the World Bank (point 2.2) to the Bretton Woods institutions as a group - the World Bank and the IDA offsetting the transfers to the IMF with additional measures.

Chapter IV: ADJUSTMENT OF AID SYSTEMS

1. Concentration, coordination and quality of aid

The aid donors, too, bear part of the responsibility for mistakes in the emphases of development policy, particularly as regards excessive centralization of development efforts and, particularly, the priority given to new investments without due account being taken of real management and maintenance capabilities.

The required changes of policy are rendered all the more necessary and urgent by the fact that the general economic climate has seriously worsened for the African countries--with all that this implies in terms of non-availability of financial resources and the disruption of production and maintenance systems. Aid therefore can no longer take the sole form of some investment fund financing one-off expansion projects. Aid today must be capable of answering all the needs arising out of the functioning of the priority sectoral and macroeconomic systems. Three new emphases are here fundamental: concentration, coordination and improvements in the quality of aid.

1.1 Concentration corresponds to two needs: the need to re-centre priorities, limiting operations to the essential on the basis of "realistic sequences of measures", and the need to cover the whole cluster of measures required to make a system (e.g. one corresponding to food strategies) function. The aim must therefore be, in the priority sectors, to reach the critical threshold where things "get going" again.

1.2 Coordination: it is in the interests of all those whose main concern is the development of the African countries to orchestrate their operations round a programme of realistic priority measures drawn up by the country concerned and adopted by, for example, a Consultative Group (see Chapter III). Specific commitments should be made in this Group to ensure that all the priorities are covered through an equitable distribution of duties between the recipient country and the various suppliers of funds. Such coordination must obviously be pursued in practice on the spot; ways of strengthening it are described in point 2.

1.3 Quality of aid: to be able to adapt their aid to Africa's changing needs (over and above quantitative considerations), the donors must improve its quality and flexibility: aid on very soft terms according to the credit-worthiness of the country concerned, more possibilities for bearing local costs, maintenance of current level of untying of aid (where more untying is not possible).

Greater flexibility is also necessary to maintain contact with economic trends in the African countries, particularly as regards their worsening balance of payments difficulties: aid aimed at the stabilization of export earnings, funding of imported inputs by way of support for reforms of sectoral policies - in short, the whole gamut of non-project aid, complementing conventional aid for projects.

2. Ways of strengthening coordination

It is of fundamental importance that the political transparency of the coordination process is ensured so as to allay the legitimate fears of the African countries of a "ganging up" of aid donors, betraying the spirit of dialogue and encroaching on their sovereignty. For this reason governments must be at the centre of the coordination process. If, however, they are to play their proper role of leaders in this process, they will have to fulfill their responsibilities which are, primarily and basically, to draw up coherent and realistic investment and financing programmes, establishing not just priority objectives but, above all, possible sequences of measures compatible with the means actually available. The Community could, if need be, supply them with the technical and financial assistance required for the preparation and management of these programmes;

Coordination must be matched by greater aid donor discipline so that their funding is predictable and guaranteed for the period corresponding to the duration of the structural adjustments; these donors must also resist the temptation, both for themselves and the recipient country, to deviate from the rigorous programme framework defined above in order to carry out prestige projects which, though attractive commercially, are of little relevance in development terms;

Coordination must be conducted within a framework which leans towards flexibility and efficacy; three characteristics are important here:

- (i) coordination must be conducted essentially on the spot with the emphasis on realism and with the recipient country at the centre of the process; this should lead the major donors, particularly the multilateral institutions, to set up or expand their missions in the countries concerned;
- (ii) coordination must not become institutionalized but must remain pragmatic, practical and adjustable to the particular conditions obtaining in each recipient country and to the interests of each donor for specific sectors and types of measures;
- (iii) its main aim must be to ensure the necessary cohesion between the measures to be taken by the country concerned to reform its policies and the assistance to be given by the donors.

This type of practical coordination would serve to demonstrate that the rigour and the commitments agreed on at international level have an equivalent in practice, answering to the wishes of aid recipients and donors alike.

The Community is prepared to participate actively in all coordination activities conducted along the lines outlined above.

Some basic data concerning sub-Saharan Africa (SSA)

1. Population	<u>1983</u> : 398 million inhabitants
2. Annual population growth	<u>1965-73</u> : 2,6% - <u>1973-83</u> : 2,9%
3. Annual growth of per capita GNP	<u>1965-84</u> : 1,8%
4. Annual growth of exports	<u>1965-73</u> : 5,8% - <u>1973-83</u> : - 5%
5. Annual growth of imports	<u>1965-73</u> : 3,9% - <u>1973-83</u> : 3,3%
6. Terms of trade of poor countries (eligible for IDA funds) (1975-80 = 100)	<u>1970-75</u> : 124 - <u>1975-80</u> : 100 - <u>1980-85(*)</u> : 95 - <u>1986(*)</u> : 101
7. Total debt (official, private, short-, medium- and long term)	<u>1984</u> : 80 000 Mio \$
8. . Official debt (medium- and long- term)	<u>1984</u> : 57 000 Mio \$
. Annual growth of official debt	<u>1970-84</u> : 20,4%
9. . Annual servicing of the debt (s.d.)	<u>1980-82</u> (actually paid): 6 900 Mio - <u>1986-90</u> (due) : 16 400 Mio \$
" " " " " - as % of exports	: 15 % : 39%
10. Official development assistance received on average per year	(US \$ '000 mio) <u>1970-72</u> - <u>1982-84</u>
. Africa - all donors	1,8 (100%) 9,7 (100%)
- of which Community and Member States	1,1 (63%) 4,5 (46%)
. Sub-Saharan Africa - all donors	1,4 (100%) 7,3 (100%)
- of which Community Member States	0,9 (66%) 3,8 (52%)

Source : World Bank and OECD

(*) estimates