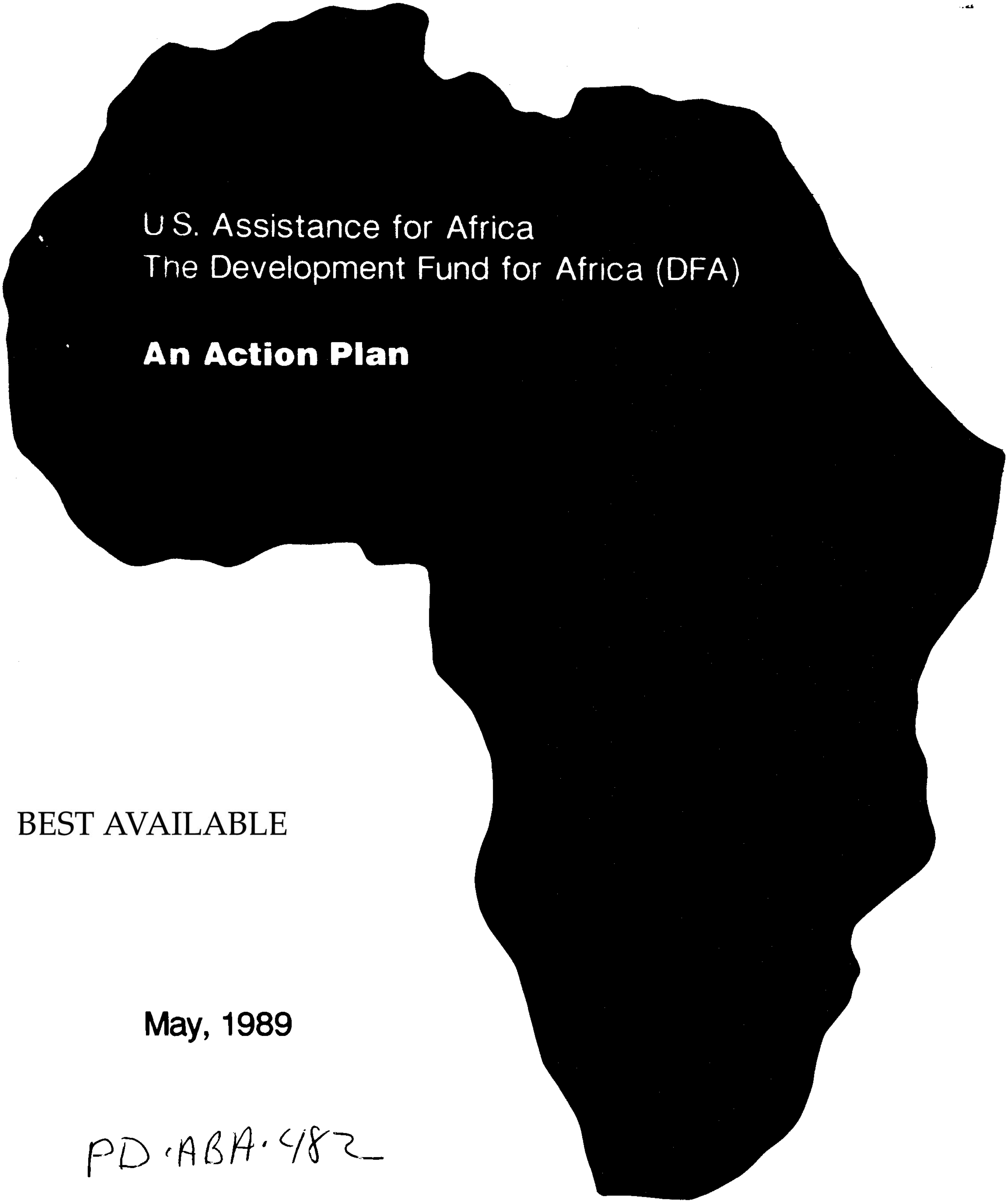
PD-ABA-482

U.S. Assistance for Africa
The Development Fund for Africa (DFA)

An Action Plan



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PD·ABA·482

An Action Plan for FY 89 - 91

The Development Fund for Africa

AN ACTION PLAN FOR FY 89 - FY 91

The Development Fund for Africa

Executive Summary

The African Context: Movement toward Economic Reform

In the first half of the 1980's, many African countries experienced serious economic decline. Economic growth stagnated and per capita incomes fell, often by 20 percent or more. In many cases, economic problems were compounded by the devastation of severe drought and war.

Africa's people, who were already among the poorest in the world, suffered further hardship. The poor, the very young, and the old were particularly hard hit. The effects of economic contraction were widely felt and, while many African governments tried to mitigate the worst effects, they found themselves with unsustainable budget and trade deficits and severe limits on their capacities to respond.

These severe financial pressures forced African governments to reassess the old way of doing business and to consider far-reaching reforms of their economic systems. By 1985, a number of African countries had begun the process of economic reform. By the end of 1988, 27 countries in sub-Saharan Africa were engaged in some form of structural adjustment, supported by both multilateral and bilateral donors.

Some recovery has been made. Modest per capita growth has now been restored in most reforming African countries. However, the pace of growth continues to be slow, in part because of resource shortages. Reforming countries have been given increased foreign aid and moderate debt relief, but these have not been enough to compensate for the large losses Africa has suffered from low prices for its exports and a halt of private investment.

A New Context for A.I.D.: The Impact of the DFA to Date

The inauguration of the Development Fund for Africa (DFA) late in 1987 presented A.I.D. with new challenges in providing development assistance in Africa. It was Congress's clear intent, in approving this new initiative, that A.I.D. would no longer conduct business as usual in Africa. Rather, A.I.D. was encouraged to take advantage of the greater flexibility of the DFA to find new ways to make U.S. assistance to the region more coherent and effective.

A.I.D. has taken this mandate seriously. We are making a major effort to concentrate our programs on countries with the most growth potential, and to take a broad, systematic look at the problems in individual countries.

The overall goal of our Africa programs is to *encourage economic growth that is broad-based, market-oriented, and sustainable.* This goal was chosen because increased growth in African countries themselves is the only way to meet Africa's tremendous human needs on a continuing basis. Improving the incomes of individual Africans is fundamental to raising low standards of living throughout the region; increased growth is also needed to enable both public and private sectors to provide needed social services.

This is why A.I.D. is emphasizing growth around the world — to support the human progress that is the heart of development. The need for increased growth is particularly great in Africa, because of the continent's past stagnation and rapidly growing population.

Although the DFA is only about a year old, we can already point to several areas of impact. First, the proportion of development assistance allocated to the best-performing African countries has increased. Second, we have made major improvements in programming our assistance to address systemic problems and in coordinating our use of different kinds of resources — food aid as well as dollars, private resources as well as public — to support changes. Third, we are collaborating more with other donors and private voluntary organizations (PVOs).

Committed to Further Changes: Implications of the DFA for A.I.D.'s Future Program in Africa

While recognizing the difficulties of demonstrating concrete results in a short timeframe, we are committed to strengthening our performance-based programming in the coming years. We intend to make U.S. assistance to Africa as effective as possible by continually focusing available resources on those issues of critical importance to the prosperity of Africa and tracking progress in meeting performance targets.

The first step in such a process is the development of this Bureau-wide DFA Action Plan. This Plan links ***the goal of our assistance program under the DFA – sustainable, broad-based, and market-oriented economic growth in Africa*** – with a strategy for achieving that goal. This strategy involves four key strategic objectives:

1. improving the ***management of African economies*** by redefining and reducing the role of the public sector and increasing its efficiency;

2. strengthening ***competitive markets*** to provide a healthy environment for private sector-led growth;

3. developing the ***potential for long-term increases in productivity*** in all sectors; and

4. improving ***food security.***

The Plan emphasizes our intention to focus our limited assistance where it can make a difference, to address causes as well as symptoms of underdevelopment, and to help the countries of sub-Saharan African deal with key problems which must be solved on a sustainable basis if the benefits of our assistance are to be experienced as broadly as possible. The plan stresses the importance of the political environment as well as the economic one, the role of the private sector as well as the public, and the short term as well as the long run. We are confident that the effective implementation of this DFA Action Plan will not only heighten the impact of U.S. assistance in Africa, but will also facilitate expansion of opportunities for the majority of Africans to improve their productivity and welfare over time.

Strategic Objectives, Targets, and Benchmarks: FY 89 - 91

Strategic Objective One: Improving the management of African economies by redefining and reducing the role of the public sector and increasing its efficiency.

African economies, by and large, are characterized by substantial public sector involvement. For several reasons, this approach has resulted in economic stagnation, corruption and cynicism. Good economic management centers on: (1) ensuring that fiscal, monetary, and sectoral policies are flexible enough to adjust to and to reduce the cycles of boom and bust to which market economies are subject; (2) reducing public sector involvement in areas better suited to private investment and risk-taking; and (3) using public monies to provide "public goods" efficiently and equitably.

To accomplish this objective, A.I.D. will work in concert with other donors to:

- *improve stability* in African economies through better management of debts and better fiscal and monetary policies;
- *reduce government involvement in production and marketing* of goods and services; and
- *improve equity and efficiency in providing key public goods* particularly in the areas of family planning, health, education and transportation.

Strategic Objective Two: Strengthening competitive markets to provide a healthy environment for private sector-led growth

A country's economic growth – and thus how well its population can meet their needs for food, housing, education, and jobs – is determined by the rate of growth of its resources (primarily capital) and the efficiency with which resources are used. Where there are incentives to invest in enterprises of low productivity or, conversely, disincentives to invest in activities which will bring high returns, economic growth will suffer.

Experience has shown that, with few exceptions, open, competitive markets provide the best incentive structure for economic growth. Market-determined prices accurately signal supply and demand conditions and permit both consumers and producers to better gauge where their interests lie. Removal of distorting price or regulatory controls over markets in Africa should, therefore, contribute to increasing economic growth in the region.

This leads to A.I.D.'s targeting on ***liberalizing commodity and factor markets.***

Strategic Objective Three: Developing the potential for long-term increases in productivity

Land and related natural resources, labor, capital, and technology are needed for production in Africa. The most efficient productive technique in the short term, of course, is that which results in the greatest output per unit of input today. However, this is not necessarily the most sustainable method of production. In most economies, investments are, therefore, made to ensure the continued availability of resources and to develop technologies which will permit greater productivity in the future.

The sector in which long-term increases in productivity are currently most threatened is agriculture. The mainstay of most African economies, agricultural productivity, as measured by per capita foodgrain production, has been declining across the continent since the early 1960's. Forests have literally disappeared and animal production is increasingly constrained by the diminishing quality and quantity of available pastureland. Attention must be paid now to:

- the ***conservation of the natural resources*** on which such productivity depends;
- the ***development of new technologies*** which permit these resources to be used more efficiently; and
- the ***improvement of job-related skills*** outside as well as in the agricultural production sector itself.

Strategic Objective Four: Improving food security

In few African countries today do all citizens have access, at all times, to enough food for an active, healthy life, i.e., food security. Global food supply is not the problem. Countries and individuals who do not produce enough to meet their own consumption needs ("self-sufficiency") can purchase all the food they want – *if* they have adequate incomes and *if* they have adequate access to markets.

However, large numbers of people in Africa do not have this income or market access, giving rise to long-term or chronic food insecurity. In many African countries, less than half of the people are able to obtain sufficient food from their own efforts at farming. Most people, even farmers, must enter the market to purchase food. Inability to overcome this chronic food insecurity results in inadequate levels of nutrition, high morbidity, and early death.

In recent years, however, food insecurity has also resulted from short-term reversals, drought and civil disturbance. Although this kind of food insecurity is termed "transitory," it is likely to be a recurring problem for the foreseeable future. The challenge for both

African governments and donors is to recognize that it is the causes of food insecurity which must be addressed, not just the symptoms. This perspective is hard to maintain when television screens are filled with images of starving children.

In addition to general support for increased economic growth, A.I.D.'s efforts to improve the food security of African countries will address four specific concerns:

- finding ways to use food aid so as to ***reduce interyear instability in supply*** and, perhaps, prices;
- increasing the capacity of donors and African countries to ***anticipate serious droughts and other emergencies*** and to provide timely and effective assistance when emergencies occur;
- finding ways in the short term to increase incomes through ***targeted welfare*** programs to those most in need; and
- ***increasing agricultural production and utilization.***

A.I.D.'s Management Objectives in Africa

Changing the way we do business means changing administrative procedures as well as more clearly focussing our program around priority development objectives and targets. In addition to continuing the management innovations already launched in FY 88, the Africa Bureau has established a Task Force to surface and debate major modifications to streamline policy and program management over the longer term.

In the immediate future, FYs 1989 and 1990, A.I.D. will aim to:

- use the flexibility of the DFA to the maximum extent by ***concentrating resources in programs which are performing well;***
- ***tie routine management*** actions (budgeting, personnel) more closely ***to DFA policy and program priorities;*** and
- ***put A.I.D.'s resources to work*** in collaboration ***with those of other donors,*** both U.S. and African ***PVOs*** and the U.S. and international ***business community,*** to expand their impact.

The Development Fund For Africa

An Action Plan For FY 89 - FY 91

I. The African Context: Movement Toward Economic Reform

In the first half of the 1980's, many of the economies of sub-Saharan Africa entered a period of free fall. Real incomes plummeted by 20 percent. Fiscal deficits mounted, inflation raged, debt piled up, infrastructure deteriorated, and social service delivery flagged. The progress that had been made during the years 1965 to 1980 was wiped out in five short years.

The economic crisis of this period was deepened by the devastation of severe drought and war. Nine of the 45 countries in the region suffered from prolonged civil wars, while eight others experienced serious political and ethnic strife. The 1984-85 drought brought widespread famine to the region. Despite the massive efforts of donors and international agencies in providing more than three million tons of food, perhaps a million Africans starved to death.

By 1985, a number of African governments had begun a series of important changes supporting economic recovery. The principal impetus for change was the severe financial pressures under which they were operating. In spite of good harvests due to better weather, declining prices for traditional African exports (cotton, minerals, and groundnuts) coupled with burgeoning debt service to force many governments to turn to the International Monetary Fund (IMF) and to the donors for assistance in structural adjustment.

For the first time, many African leaders acknowledged the need to change old ways of doing business — to reform their nations' economic systems. Donors accepted responsibility for providing more effective assistance to help African governments implement difficult reforms. These changes reached full flower in 1988 in several countries.

Other leaders, however, found their latitude for change constrained by the political costs of reform. Too many interest groups benefited from cheap food, government wages, and the ability to use government positions for private gain. Some countries, including some of high political importance to the United States, vacillated between reform and recidivism, pushed one way by the lack of money and another by strong interest groups. Many of these economies have stagnated or continued on a downward spiral.

Although peace has been achieved in Chad and seems much more likely in southern Africa, progress in resolution of other political conflicts has been elusive. Many countries remain mired in wars and uprisings which drain both human and financial resources. Figure 1 presents summary data on African economic performance in the 1980s. While performance for most countries has been undistinguished, two facts stand out. First, performance for most variables during the 1985-87 adjustment period has been better than during the pre-adjustment period. Second, the performance of countries with strong reform programs has been generally better than those which had weak or no reform programs.

This is in spite of the fact that the reformers had much greater external shocks to overcome. For example, strong reformers saw a 4.7 percent annual drop in their terms of trade in 1985-87 while weak performers saw a 1.4 percent increase in their terms of trade. On the other hand, strong performers saw their development assistance levels increase annually by 18.7 percent, while weak performers saw their external assistance resources decline by 4.7 percent per year.

A. *Reforms*

By the end of 1988, twenty-seven countries in sub-Saharan Africa were actively engaged in some form of macroeconomic adjustment program with IMF and/or World Bank assistance (Figure 2). Reforms were especially important in three areas:

- exchange rate management, often dramatically reducing real exchange rates (e.g., Uganda, Tanzania, Ghana, Gambia, and Zaire), although inflation has remained a major problem;
- fiscal policy, which has helped to control deficit accumulations although success has been modest at best; and

Figure 1: Summary of Economic Performance Indicators (average annual growth rate unless otherwise noted)

Indicator	Period	All Countries With Strong Reform Programs	All Countries With Weak or No Reform Programs
Growth of GDP (constant 1980 prices)	1980-84	1.4	1.1
	1985-87	2.8	2.6
Agricultural production	1980-84	1.1	1.3
	1985-87	2.6	1.5
Growth of export volume	1980-84	-1.3	-3.1
	1985-87	4.2	0.2
Growth of import volume	1985-87	1.7	-2.7
excluding oil exporters	1985-87	4.8	
Growth of real domestic investment	1980-84	-8.1	-3.7
	1985-87	-0.9	-7.0
Gross domestic savings	1982-84	9.9	2.3
(as percentage of GDP)	1986-87	10.7	6.0
Growth of per capita consumption	1980-84	-2.3	-1.1
(real)	1985-87	-0.4	-0.5

Source: *IBRD: Africa's Adjustment Recovery and Growth*, 1989

Figure 2: Macroeconomic Reform, Structural Adjustment, and Donor Support — December, 1988

Country	IMF	World Bank Special Program for Africa (SPA)	A.I.D. Sectoral Programs
*Burundi	SAF	SPA	
Cameroon	SB		AEPRP/Fertilizer
*CAR	SAF	SPA	
Chad	SAF		
Cote d'Ivoire	SB		
Gabon	SB		
*Gambia	SAF	SPA	AEPRP/financial markets, public enterprise reform
*Ghana	ESB/SAF	SPA/Financial sector	Agricultural productivity
*Guinea	SAF	SPA	AEPRP/Markets
*Guinea-Bissau	SAF	SPA	
*Kenya	SB/SAF	SPA/Industry	Fertilizer
Lesotho	SAF		AEPRP/Agricultural policy
*Madagascar	SB/SAF	SPA/Public sector	AEPRP/Trade
*Malawi	SB	SPA/Industry and trade	AEPRP/Industry and trade
*Mali	SB/SAF	SPA	AEPRP/Public sector markets
*Mauritania	SAF	SPA	206/Markets
*Mozambique	SAF	SPA	Private sector rehabilitation
*Niger	SAF	SPA/Public enterprises	AEPRP/trade
Nigeria		Trade policy Export development	
*Sao Tome		SPA	
*Senegal	SB/SAF	SPA	ESF/Agriculture AEPRP/Tax reform
Sierra Leone	SAF		
Somalia	SAF	Agricultural sector	
*Tanzania	SAF	SPA/Multisector	AEPRP/Agricultural transport
*Togo	SB/SAF	SPA	AEPRP/Trade
*Uganda	SAF	SPA/Economic rehabilitation	AEPRP/Nontraditional export
*Zaire	SAF	SPA/Adjustment support	AEPRP/Trade

Note: Starred countries are classed as "debt-distressed" by the World Bank, that is, with debt service requirements exceeding 30% of total exports of goods and services. SAF stands for the Structural Adjustment Facility of the IMF; SB is the Standby Facility. AEPRP is A.I.D.'s African Economic Policy Reform Program and 206 refers to Title II, Section 206 support.

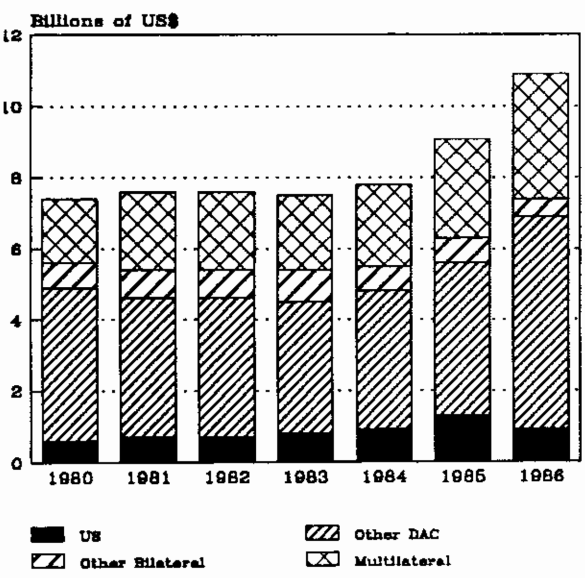
- agricultural policy, particularly with regard to market liberalization for food crops (although several countries have totally eliminated government monopolies in export markets as well).

The adjustment programs have also generally included measures to increase the ability of the private sector to function efficiently and profitably.

B. *Official Development Assistance Flows*

For the period 1980 to 1985, disbursements of concessional assistance (ODA) in sub-Saharan African countries averaged $7.5 billion per year. For 1985/86, average disbursements increased to $10 billion per year, a 33 percent increase. The OECD countries provided roughly 62 percent of this assistance, the multilateral agencies, 32 percent, and the OPEC and the Communist countries, six percent.

Figure 3:
Total ODA Disbursements to Sub-Saharan Africa



In 1985/86, the U.S. share of total bilateral disbursements was 18 percent, although this figure was inflated by emergency food aid (see Figure 3). In more normal years, 1986 and 1987, the U.S. share was approximately 13 percent, below that of France and Italy but slightly more than Germany.

The World Bank remains the foremost assistance agency in sub-Saharan Africa, lending $1.4 billion in 1986 at IDA's concessional interest rates. World Bank assistance through IDA has grown at an average rate of 21 percent per year between 1980 and 1986, and increased 60 percent in 1986 alone. In 1988, the major bilateral donors agreed, in cooperation with the World Bank, to provide some $4.0 billion in fast-disbursing assistance over three years (1988-90) to support adjustment in the nineteen African debt-distressed countries listed in Figure 2. The U.S. share of this joint effort is expected to exceed $500 million, or 12.5 percent.

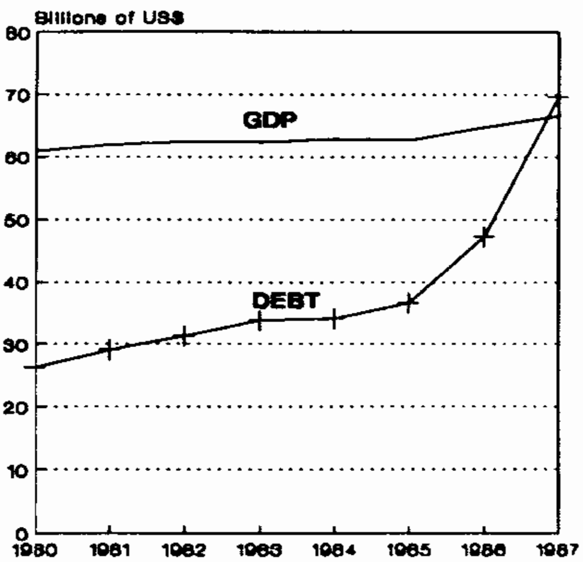
C. *Other External Flows*

While concessional flows have increased, non-concessional flows to the poorer countries in Africa have all but dried up. Disaster relief generated by private sources in 1984/85, and generally expended through private voluntary organizations (PVOs) for famine relief and rehabilitation efforts, appear to have diminished (although no hard data are available). Net private direct investment is zero or negative. In 1986 and 1987, the IMF received a billion dollars a year more in reflows and charges than it provided in financing to Africa. The new facilities created at the IMF, the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) may reverse this trend. These facilities are designed to provide concessional loans of longer maturities, providing the time needed for recovery.

D. Debt

A major problem in Africa is the drag that debt service payments exert on economic recovery (Figure 4). External debt service payments have grown to between 30 and 45 percent of exports in most countries. In 1986, IDA-eligible sub-Saharan African countries repaid creditors $4.2 billion in debt service, which represented 60 percent of the debt service due. The 1988 Toronto summit agreements, which provide for rescheduling and expanded access to grant or low-interest resources, promise some relief by reducing the rate of growth of the debt mountain in the 1990's. However, they do little to reduce current debt service problems. Any further attempts to relieve the debt-servicing burden run into budgetary and institutional problems in the lending countries. At the recent U.N. review of progress made on the U.N. Programme of Action for African Economic Recovery and Development (UNPAAERD), it was concluded that creditors are not likely to do much more on debt relief than they already have, at least in the present international framework.

Figure 4:
Debt Problem of Low Income Sub-Saharan Africa



E. Trade

Perhaps the most intractable problem for sub-Saharan Africa is the continued deterioration of commodity prices. For sub-Saharan countries as a whole, the terms of trade in 1987 stood at 69 percent of the 1980 level. In other words, every ton of cocoa or coffee or copper bought 31 percent less in terms of raw materials or capital goods than it did in 1980. This resulted in an estimated annual average loss of $6.7 billion in export earnings (estimated at 1980 prices).

F. Resource Balance

Figure 5 provides data on the amount of external resources available to low-income sub-Saharan African countries to finance growth. These figures show that, despite reasonably heroic efforts by donors in terms of both increased assistance and moderate debt relief, Africa's net resources have declined. This is due mainly to continued low prices for Africa's traditional exports and, thus, to reduced export earnings. This has reduced ability to import and poses a serious constraint to economic growth.

II. A New Context for A.I.D.: The Impact of the DFA to Date

The President's approval of the Initiative to End Hunger in Africa in June, 1987 and the inauguration of the Development Fund for Africa (or DFA) later in that year presented A.I.D. with new challenges in providing development assistance in Africa. The End Hunger Initiative linked the alleviation of hunger in the region to the achievement of more positive rates of economic growth. In approving the DFA, it was Congress's clear intent that A.I.D. would no longer conduct business as usual in Africa. Rather, A.I.D. was encouraged to take advantage of the greater flexibility of the DFA to find new ways to make U.S. assistance to the region more coherent and effective.

A.I.D. has taken this mandate seriously. We are making a major effort to concentrate our programs on countries with the most growth potential, and to take a broad, systemic look at the problems in individual countries.

The overall goal of our Africa programs is to encourage ***economic growth that is broad-based, market-oriented, and sustainable***. This goal was chosen because increased growth in African countries themselves is the only way to meet Africa's tremendous human needs on a continuing basis. Improving the incomes of individual Africans is fundamental to raising low standards of living throughout the region; increased growth is also needed to enable both public and private sectors to provide needed social services.

This is why A.I.D. is emphasizing growth around the world — to support the human progress that is the heart of development. The need for increased growth is particularly great in Africa, because of the continent's past stagnation and rapidly growing population. These factors mean that Africa ***has*** to attain high rates of growth if it is to make real progress in raising its low standards of living.

The case of Ghana is a case in point. In recent years, Ghana has attained one of the higher growth rates in Africa, because it has been a leader in economic reform. However, it started from a very low base,

Figure 5: External Resources — Low-income African Countries (in billions of 1987 U.S. $)

	1980-85	1986-87
	(annual average)	
Sources	24.4	19.2
ODA	5.8	6.9
IMF	1.3	0.5
Other Official	1.5	1.0
Private	2.8	0.9
Exports	13.1	9.9
Uses		
Debt Service	4.6	3.9
Available for Imports	19.8	15.3
Memo Item: Terms of Trade Loss (in billions of 1980 dollars)	6.7	

reflecting the major economic decline it suffered before reform. As a result, at current growth levels it will take Ghana 45 years just to reach the income level that Thailand has today. This shows how vital it is that growth be increased.

To support growth A.I.D. has used the flexibility of the DFA to make a number of changes. We have moved to concentrate our resources on African countries that are serious about reform. We are taking a more systemic view of the problems of individual countries. And we are working more collaboratively with other donors and private voluntary organizations (PVOs). Although the DFA is only about a year old, we have already made tangible progress in these and other areas.

A. Concentration of Resources Based on Performance

Resources have been shifted away from countries which are poor performers toward those which have embraced reforms and moved their economies toward increased growth. Liberia, Sudan, and Zambia together will see their share of the bilateral DFA resources decline from 15 percent in FY 87 to roughly five percent in FY 89. Ghana, Guinea, Madagascar, Mali, Malawi, and Uganda will receive 28 percent of DFA resources in FY 90 as compared to 14 percent in FY 87.

B. A Systemic Approach

Within countries, A.I.D.'s resources are being blended with those of the recipient public and private organizations to alter the way that production, regulatory, and even social systems function.

- In Niger, for example, government policy on exports has inhibited trade and limited incomes for producers of commodities which could be exported. Using the African Economic Policy Reform Program (AEPRP) approach, A.I.D. has encouraged the government to make the policy and regulatory changes needed to stimulate trade and boost agricultural earnings as producers find buyers outside of Niger — even though in the short run this means a loss in public revenues from export tariffs. In addition to compensating for this revenue shortfall, AEPRP resources also support essential complementary activities — setting up a trade promotion center in Nigeria and collecting and disseminating market information in Niger to traders and farmers. By dealing simultaneously with policy, resource, organizational, and information constraints, AEPRP non-project assistance has been an effective development instrument in Niger.

We expect this systemic, non-project approach to account for a greater share of our programs in all priority countries in Africa. It will complement rather than replace traditional projects. Projects will still be used where there is a need to develop specific capacities over a longer period of time. The fast-growing program in Madagascar, for example, combines non-project support for liberalization of export markets, expected to increase agricultural production in the relatively near future, with selected project interventions (agricultural research, family planning, resource conservation) to increase peoples' incomes and opportunities over the longer term.

C. Focused Management Attention

These modifications of priority and approach have been reflected in changes in program review procedures. A.I.D./W is taking steps to: focus its management attention, staff resources, and operating expense funds in fewer countries; concentrate program management efforts at the sectoral level in key countries; and reduce its program oversight responsibilities.

All sub-Saharan countries are now grouped into three categories:

- Category I includes those countries with a demonstrated commitment to sound and/or improved economic policies, good potential for economic growth, relatively large populations (over seven million), and capability for managing serious debt or foreign exchange problems. These countries will require substantial analytical efforts, sound management and oversight, and attention to staffing and operating expense allocations. This "top ten" category includes: Senegal, Mali, Guinea, Ghana, Cameroon, Zaire, Uganda, Kenya, Malawi, and Madagascar.

- Category II consists of eight countries which are small, but have demonstrated a commitment to good economic policies and/or have good records of economic growth: Botswana, Lesotho, and Swaziland, Gambia, Guinea-Bissau, Burundi, Rwanda, and Niger. Two other countries are also included in this category: Tanzania and Mozambique. These countries are larger, have excellent growth potential, and are more strategically important for the U.S., but are currently experiencing difficulties in implementing needed reforms. As in Category I, these countries will require substantial analytical efforts, management and oversight, and attention to staffing and operating expense allocations.

- Category III includes the remaining 22 sub-Saharan countries which receive bilateral assistance through A.I.D. Our activities in most of these countries is limited to one or two areas of concentration which have high priority in-country and promise of good performance. The programs in some of the smaller countries in this category will be managed entirely by U.S. private voluntary organizations (PVOs).

D. Collaboration with other Donors and PVOs

Steps have also been taken to promote closer collaboration with other donors and private voluntary organizations (PVOs) — to strengthen policy reform dialogue, support private sector initiatives, and, in general, better focus development assistance. U.S. cofinancing with the World Bank is expected to exceed $500 million in the FY 88-90 period. A.I.D. is collaborating with PVOs to design and implement food-assisted PVO projects in child survival, basic education, natural resource management, and microenterprise development. By cofinancing and collaborating with other organizations, we can stretch the impact of A.I.D.'s resources.

E. More Flexible Use of A.I.D. Resources

Our collaboration with other organizations has been complemented by our efforts to achieve more integrated use of all A.I.D. resources —DFA, ESF, P.L. 480, and local currency. Greater use of nonproject assistance has fostered more integrated use of food aid resources. Generated local currency has also supported project activities. We have adopted new procedures for review and approval of food aid programs that ensure consistency with the DFA program. We have incorporated debt relief needs into programming decisions.

Furthermore, we have decentralized our decision-making for regional programs by instituting a Mission buy-in procedure. This gives Missions more initiative and flexibility to decide which

A.I.D. Assistance to Mali

A.I.D.'s program in Mali provides a useful example of the growing interaction of project and non-project assistance which is facilitated and encouraged under the DFA. Already one of the world's poorest countries, Mali reached a crisis point economically in the late 1970's. Since that time however, it has been undergoing a quiet revolution, gradually turning around its economic policies. In response, A.I.D. has increased its assistance and narrowed its program focus by better integrating non-project assistance for policy reform and project assistance.

The Economic Policy Reform Program (EPRP), for instance, has made significant progress in restructuring the government budget and instituting new tax and commercial codes to stimulate private sector activities. On the sectoral level, A.I.D., in concert with other donors, has also been successful in providing food aid and policy analysis in support of liberalization of the critical cereals sector. This has included policy reform to abolish fixed prices and urban subsidies, thus diminishing the burden of these programs on the government budget. Directly complementing these policy improvements are a variety of projects which help local farmers. For example, the Haute Vallee project is privatizing the input supply system of critical commodities like fertilizer, carrying economic policy reform to the grassroots level. Agricultural research is working on technologies which fit farmers' requirements and are critical to Mali's long-term food security.

regional programs and projects can most effectively complement the bilateral portfolios.

F. Revised Procurement Procedures

Operating under less restrictive procurement rules, we have already noted a reduction in the manpower needed for procurement management, both in the Missions and in A.I.D./W. This frees personnel to concentrate on program implementation. The rule change has also resulted in more appropriate commodity procurement.

G. Budgeting Changes

The flexibility to allocate resources without sector restrictions has permitted us to do a more efficient job of allocating current year resources and solving development problems. We set the 1988 budget and began early implementation of the program in one-third the time required in previous years.

H. Monitoring, Evaluation, and Reporting

Improving performance is critically related to our ability to define, measure, and track progress. New guidance on program monitoring and evaluation has been issued and an impact evaluation series launched. Our initial focus is on assessing the effects of rural credit on financial markets, households, and individuals. This is the first of a number of planned initiatives to strengthen our monitoring, evaluation, and reporting capabilities. Improved monitoring and evaluation is also important for tracking the impact of our programs by gender.

III. Committed to Further Changes: Implications of the DFA for A.I.D.'s Future Program in Africa

While recognizing the difficulties of demonstrating concrete results in a relatively short timeframe, we are committed to strengthening this performance-based approach in the coming years. We intend to make U.S. assistance to Africa as effective as possible by continually focusing available resources on issues of critical importance to the prosperity of Africa and by tracking our progress in meeting specific performance targets.

The first step in this process is the development of this Action Plan for accomplishing the development goal of the DFA — sustainable, broad-based, and market-oriented economic growth in Africa. This Plan focuses on four key strategic objectives:

1. improving the management of African economies by redefining and reducing the role of the public sector and increasing its efficiency;

2. strengthening competitive markets to provide a healthy environment for private sector-led growth;

3. developing the potential for long-term increases in productivity in all sectors; and

4. improving food security.

Each of these strategic objectives and its relationship to the goal of broad-based, sustainable, and market-oriented growth are discussed below. For each objective, a series of targets and benchmarks by which we can assess progress is proposed. These targets and benchmarks should help us to monitor, evaluate, and report on the performance of both A.I.D. and the countries receiving assistance.

Over the coming year, we will develop the baseline data needed to refine the targets and test the feasibility and utility of the benchmarks as quantifiable indicators by which to measure progress. All benchmarks will be disaggregated by gender, reflecting the continued priority which A.I.D. places on increasing the economic participation of women. Further, we will also specify those countries in which special efforts to track these benchmarks systematically will be made. The

Parastatals in African Economies

Parastatals are everywhere in Africa. For example, a recent World Bank study of 31 African countries found that:

- The average number of parastatals in each country was 95, ranging from nine in Botswana to 420 in Tanzania.
- These parastatals produced, on average, 15% of GDP.
- They were responsible for 24% of total investment.
- They accounted for 25% of formal sector employment.
- They received 16% of domestic credit.
- They were responsible for 15% of external debt.

benchmarks will be refined during the upcoming year through discussion with Missions, technical specialists, other donors, and PVOs.

The next year will also be a critical one as we attempt to integrate the DFA Action Plan with existing sectoral policies and strategies (e.g., Child Survival, the Plan for Strengthening Agricultural Research and Faculties of Agriculture, the Natural Resource Management Plan, the strategy for Basic Education) as well as the strategy statements (CDSSs) and action plans of our country programs. We do not intend that the DFA Action Plan should supercede or replace all sectoral or subsectoral strategies and plans or that every country program should exactly replicate the DFA Action Plan.

Rather, sectoral strategies will continue to fulfill an important technical review and guidance function. As we begin to take full advantage of the flexibility of the DFA, however, we expect that the boundaries around the traditional sectors (agriculture, health, education, and family planning) will be expanded and refined. Country circumstances — policies, institutional strengths, the available natural resource base, and other donor programs — will determine which sectors A.I.D. will focus on in any particular country. These will be analyzed, as they are now, in the country strategy development process. However, no matter what sector is selected as the focus of a particular country program, it is expected that there will be some relationship to the strategic objectives and targets of the DFA Action Plan.

Finally, we expect that some country programs will focus on certain aspects of the DFA Action Plan and other programs will focus on others. We plan to develop our monitoring approach accordingly. For example, programs in Senegal, Guinea, Madagascar, Mali, and Niger are already committed to the process of commodity market liberalization and are thus likely to provide "benchmark cases" for assessing progress in the development of competitive markets.

IV. Strategic Objectives, Targets, and Benchmarks: FY 89-91

Strategic Objective One

Improving Management of African Economies by Redefining and Reducing the Role of the Public Sector and Increasing its Efficiency.

The Relationship between Growth and Economic Management

African economies, by and large, are characterized by substantial public sector involvement. The public sector not only provides public goods (such as roads and education) and regulates the private sector, but also is directly involved in the production of a wide variety of goods and services. This has turned out to be unfortunate for several reasons:

- Public management capacity is one of the scarcest resources in Africa. Spreading it over a wide range of activities promotes inefficiency and mismanagement.
- The temptation to use public economic activities for political rather than economic objectives is too great to be resisted. In the words of Kwame Nkrumah, "Seek ye first the political kingdom...".
- The information needs of a centrally-managed economy are well beyond the capacity of most countries in sub-Saharan Africa.
- Excessive government control and regulation of the economy leads to the concentration of economic power in the hands of a few politicians and allows civil servants to

use their positions for personal gain, both leading to inefficient and inequitable use of public resources.

The result of a statist approach to development has been economic stagnation, corruption, and cynicism. Nevertheless, we must avoid the opposite error of dismissing the importance of the State. In fact, many key goods and services can only be provided by the public sector. Moreover, the State has access to 20 to 30 percent of the total resources available to the economy, and how it handles those resources is critical to economic growth.

Good economic management centers on: (1) ensuring that fiscal, monetary, and sectoral policies are flexible enough to adjust to and to reduce the cycles of boom and bust to which market economies are subject; (2) reducing public sector involvement in areas better suited to private investment and risk-taking; and (3) using public monies to provide "public goods" efficiently and equitably.

Target 1-1

Improved stability in African economies: better management of debts and better fiscal and monetary policies

Economic stability is a necessary condition for substantially increased private investment as well as for effective public administration. Instability is, of course, an inherent feature of many African countries because their production varies greatly with weather and because they are vulnerable to volatile international market prices. In fact, a key cause of Africa's current crisis has been the inability of governments to adjust their economies to variable and often negative international economic conditions. For example, rather than reduce consumption in the face of a world recession, African countries borrowed large sums, expanded public bureaucracies, and maintained fixed and overvalued exchange rates. The result has been rampant inflation, deterioration of government services, and reduction of domestic investment and savings.

<u>Lessons from Experience</u>

With the help of the IMF, many countries in sub-Saharan Africa have been able to reduce fiscal instability, albeit at a high cost — reduced investment and reduced incomes. What is not yet clear is how sustainable these stabilization programs are, especially in the face of serious political resistance. Some countries, such as Zambia, found the stabilization process too difficult to sustain, while others, such as Ghana and the Gambia, have seen continued progress. It is also not clear whether there are any cost-effective means of cushioning the effects of short-term belt-tightening for those who are negatively affected, particularly those who are already at nutritional risk or who do not have the mobility to look for jobs or resources elsewhere.

For the most part, we should expect stabilization programs to exhibit fits and starts, with periods of adherence and periods of slippage. The additional resources of a structural adjustment program or bilateral development assistance will often be critical in maintaining the momentum necessary for the long-term gains to be realized.

<u>A.I.D. Programs</u>

The IMF has been, and will continue to be, the lead player in economic stabilization. However, A.I.D. must understand the demands which a stabilization effort places on various sectors of the economy and be fully aware of the consequences which success or failure in stabilization programs will have on the possibilities for realizing other development goals. Only then can A.I.D. provide effective support to complement and maintain stabilization efforts, for example, analytical and technical assistance to improve budgetary and fiscal systems and to reduce the recurrence of repeated financial crises and/or food aid assistance to dampen swings in import requirements due to erratic changes in weather.

There is also a potentially important role for A.I.D. in the programming of local currency resulting from sector assistance or food aid sales. During periods of fiscal austerity which threaten the continued provision of even minimal levels of public services (e.g., health, education), such local currency can provide the supplementary resources needed to sustain needed services and protect prior investments (e.g., in roads and irrigation infrastructure).

Each of these methods has been used in the past — and can be used more flexibly under the DFA — to promote increased stability. New initiatives in this area may involve conversion of dollar debt to local currency debt, stepped-up efforts in revenue management, and the decentralization of economic and political power to sub-national levels.

Benchmarks of Performance

A.I.D. will monitor the following variables to gauge countries' progress in achieving this target:

- Fiscal deficits as share of GDP;
- Inflation rates;
- Efficiency of tax systems measured by tax buoyancy and fiscal effort; and
- Foreign trade balances.

It should be recognized that A.I.D.'s direct effect on these benchmarks will be minimal. In most cases, A.I.D.'s role will be as a provider of complementary support rather than a leader. However, as already noted, A.I.D. must thoroughly understand the macroeconomic situation if it is to be able to program its limited resources effectively. If macroeconomic benchmarks indicate that an economy is farm out of balance, there is little hope that the additional resources which A.I.D. can provide will be productive. Therefore, these benchmarks are important elements of the criteria for country allocations under the DFA.

Target 1-2

Reduced government involvement in production and marketing of goods and services.

The 1960's and 1970's saw the extensive entry of African governments directly into industrial and agricultural production. While many changes have taken place over the last few years, parastatals in many countries still account for most activity in the formal sector.

There are a few examples of profitable parastatal operation in Africa (e.g., the Kenya Tea Development Authority), but the vast majority have proved to be inefficient and unviable as business entities. Continued operation of parastatals has, in many cases, crowded private sector operations out of the credit market, led to increasing fiscal instability, and created unsustainable employment levels.

Lessons of Experience

Many governments have begun the difficult process of rationalizing the public sector's involvement in production. However, the road is likely to be long and difficult. Throwing people out of work is never easy, even when their productivity is recognized as very low. The funds to set the accounts in order are often lacking. And it is politically difficult to admit that something didn't work.

A.I.D. Programs

A.I.D. can play either a direct or indirect role in helping the public sector to reduce its involvement in production. For example, we are supporting the divestiture and privatization of the parastatal grain market agency (ADMARC) in Malawi and the reform of a regional development organization, the Operation Haute Vallee, in Mali. In the indirect mode, we are providing local currency support to compensation schemes which are part of the government's privatization efforts in Ghana and to a number of public sector reforms in Guinea.

Equally important, A.I.D. will assist the private sector to take over functions previously performed by the public sector. For example, in Senegal, the Agriculture Support Project helps traders participate in marketing and input delivery. In Mali, Title II, Section 206, local currencies are used for a similar purpose. In Kenya, ESF resources have been used to support privatization of fertilizer delivery. Finally, we are working with the Center for Privatization (CFP) to assist the cities of Abidjan and Nairobi to put garbage collection into the hands of private companies.

Benchmarks of Performance

A.I.D. will monitor the following variables to gauge countries' progress in achieving this target:

- number of countries with private agricultural marketing systems;
- level of subsidies being paid to parastatals;
- ratio of parastatal employment to private formal sector employment; and
- ratio of parastatal credit to total non-government credit.

Target 1-3

Improved equity and efficiency in providing key public services particularly health, family planning services, education and transportation infrastructure

At the time of independence, most African countries had very inadequate physical and institutional infrastructure: few roads, vehicles, and schools; fewer teacher training colleges, effectively functioning ministries of finance, education; and so forth. Although external assistance and export earnings grew in the 1970's, drought, reverses in international markets, and the failure of many African governments to manage effectively their public finances and public sectors, led in the 1980's to the deterioration of an already inadequate level of public goods.

Fiscal resources have not kept pace with the financing requirements for maintaining infrastructure. Increasingly, roads are allowed to deteriorate, schools lack books, and health centers lack medicines. These problems have to be dealt with at the macroeconomic level, i.e., overall public expenditures must be limited to an affordable and sustainable level. However, restructuring sectoral priorities and budgets is of equal importance when budget cuts are contemplated. Such restructuring usually has to address three budgetary balances:

- The balance between funding out of general revenues and out of user fees;
- The balance between personnel and operations costs; and
- The balance between higher cost, higher quality services for the few and lower cost, largely rural, services for the many.

In addition, the short-term impacts of budget cutbacks on individuals' welfare must be taken into account.

A.I.D. is well placed to play a useful role in sectoral support. We can mobilize the local currency generated by P.L. 480 programs, ESF-financed Commodity Import Programs, DFA sectoral assistance programs, and perhaps by the use of debt for development authority to help rationalize sectoral budgets as well as to provide short-term coverage of gaps. Such rationalization is likely include increased emphasis on user fees. Experience has shown that user fees not only support broader access to public services but ensure that such access is sustained. A.I.D. will also contribute by working collaboratively with other donors and private voluntary organizations.

In sum, through the appropriate mix of project and non-project assistance, and with the integrated use of PVO assisted P.L. 480 food aid resources, generated local currency, and DFA dollars, the resource modalities required to support sectoral restructuring efficiently and effectively are available.

We will work on rationalizing sectoral expenditures in the following public service areas: population policy and family planning; health and child survival; education; and infrastructure for transport and production.

A. Population Policy and Family Planning

Lower fertility rates would help to boost economic growth and improve human welfare in sub-Saharan Africa. In recent decades, annual population growth surpassed all previous recorded levels, driven by sustained, extraordinary levels of fertility and diminishing mortality. Today, the sub-Saharan African population is almost 500 million. With a growth rate of about 3 percent per year, the population will double in just 24 years.

Many countries are already struggling with heavy child-rearing and education burdens. Others are experiencing declining levels of per capita food consumption as population growth outstrips production increases. Arable land constraints are already highly visible in some countries. This situation calls for serious attention.

Lessons of Experience

After twenty years of donor support, most African governments have begun to recognize the importance of reducing population growth. Ten countries (including Gambia, Nigeria, Senegal, Liberia, Burundi, and Uganda) now have explicit national policies favoring lower population growth and twelve others (Botswana, Benin, Burkina Faso, Cameroon, Madagascar, Niger, Sierra Leone, Somalia, Sudan, Togo, Zambia, and Zaire) are expected to announce population policies this year or next.

The provision of family planning services continues to be inhibited by cultural patterns and legal restrictions, including high customs duty and excise taxes on the import of contraceptives and equipment and severe restrictions on marketing. These will require attention in policy dialogue.

While many surveys report that large families are highly desired and that most males take no interest in or responsibility for fertility regulation, there is much evidence of unmet demand for family planning services. In areas where high quality family planning services have been made available, e.g., in parts of Kenya, Nigeria, Zaire and Zimbabwe, the use of effective methods of contraception has increased dramatically.

A.I.D. Program Directions

The Bureau is encouraging the Missions to find better ways to engage top leadership of host countries and other donors to bring about a more genuine commitment to voluntary family planning. It is also encouraging Missions to integrate voluntary family planning programs into other development efforts — in education, agriculture, and child survival.

Programs in the field will involve policy restructuring/development, information, education and communication (IEC), service delivery, training and research. The Africa Bureau's funding for population from FY 1988 to FY 1990 will be just under $100 million, which is about $33 million per year. This will be substantially supplemented by funding from central bureaus (particularly Science and Technology).

Benchmarks

Key benchmarks which A.I.D. will monitor to assess progress in population policy and family planning will be:

- Percent contraceptive prevalence rate (CPR);
- Percent of population with access to contraception;
- Total fertility rate;
- Percent population growth rate; and
- Involvement of private sector in production and marketing of contraceptives.

Despite promising recent developments, only the small island country of Mauritius has been able to document reductions in fertility on a national scale. However, numerous censuses and major surveys are scheduled over the next few years. In the next two to three years, it is expected that national statistics in Zimbabwe, Botswana and Kenya will reflect birth rate declines, usually seen first in lower birth rates among older women.

B. Health and Child Survival

Availability of and access to health and child survival services are fundamental to a productive society and to the decline of fertility. In concert with other donors, particularly UNICEF, A.I.D. targets its health and child survival resources on preventive health care for children under five and women of reproductive age. The immediate gain from such health services is reduced infant mortality. The long-term gains are a more productive labor force and a reduction in the drain of secondary and tertiary health care costs on public finances. When families are more confident about child survival, they are more receptive to controlling fertility.

Lessons of Experience

The recession of the 1980's left most African countries with fewer resources to administer public health programs. Typically, preventive primary health care suffered the most. As a result, the issue of sustainability, particularly financial sustainability, became a key consideration in health and child survival. During the 1980s, two other factors added to health problems: the rapid spread of chloroquine-resistant malaria from eastern into western Africa and the serious threat posed by the Acquired Immune Deficiency Syndrome (AIDS). In sum, our experience has taught us that results will not be achieved as rapidly as earlier hoped.

A.I.D. Program Directions

A.I.D.'s health and child survival programs focus on immunization, oral rehydration therapy (ORT), dietary management of diarrhea, high-risk births, malaria, and AIDS. The integration of these services with family planning services is key, especially in the treatment of women who are likely to experience high-risk births.

A recent reappraisal of the program reaffirms the effectiveness of this strategy in reducing infant and child mortality. We have learned, however, that we have do more than the "twin engines" of immunization and ORT if we are going to reach the target of reducing infant mortality rate to a rate of 75/1000 in key countries by 1995. Because malnourished children are twenty times more likely to die than normal children, and because malnutrition underlies more than half of all child deaths, the Africa Bureau plans to strengthen its current strategy by emphasizing breastfeeding, growth monitoring, improved feeding practices, dietary management of diarrhea, targeted feeding programs and Vitamin A interventions.

Substantial resources beyond those available to A.I.D. will be required, including stronger host country commitment, more cost recovery, and broader donor participation. Evidence has shown that more resources can be mobilized. A study of ten of the best health zones in Zaire found that they were able to finance 67 percent to 90 percent of their operating expenses through user fees. Revolving drug funds in Senegal, for example, have generated the revenues necessary to maintain a steady supply of essential drugs to communities.

The Kenya Fertilizer Liberalization Program

Prior to 1975, the Kenya Government had a viable fertilizer marketing system in place. At that time, the private commercial sector controlled importing and distribution of fertilizer, while the private Kenya Farmers' Association (KFA) worked out selling prices with the Government's approval. Government involvement was limited to subsidies, extension and research services. Distribution was, however, largely restricted to larger farmers who were members of the KFA.

The disruption of the fertilizer markets caused by the 1973 oil crisis led to the Government's intervening in the fertilizer sector in a major way. Prices were more strictly controlled, the Government became involved in direct importation (largely through donor-granted fertilizers), and a distribution monopoly was given to the inexperienced Kenya National Federation of Co-operatives. These interventions crowded out the private sector. The result was a fertilizer distribution system which was subsidized, inefficient, and limited in size by the availability of donor grants and of budget resources for subsidies.

In 1983, A.I.D. launched a fertilizer liberalization program aimed at increasing fertilizer availability by reducing Government control and expanding the role of the private sector. A recent evaluation noted the following impacts:

- Fertilizer is widely available; 43 percent of farmers are now able to obtain fertilizer within one kilometer of their farm.
- The percentage of farmers purchasing from private distributers has climbed from 15 percent in 1984 to 53 percent in 1988.
- 75 percent of the farmers said that timeliness of fertilizer availability had increased and 53 percent were now able to obtain as much fertilizer as they wished.
- 39 percent of the farmers stated that they are now more aware of the benefits of fertilizer use than they were in 1983.

Under the DFA, therefore, the Bureau will strengthen and broaden its current strategy to include:

- health financing, particularly regarding cost recovery and the development of country-specific health financing objectives, as part of an overall sustainability strategy;
- the managerial requirements to assure the sustained, effective provision of health and child survival services;
- development of national systems of data collection, collation and analysis, including nutrition monitoring systems;
- applied research in ORT; and
- sustained assistance at the country level to (1) achieve an infant mortality rate (IMR) of 75/1000 by 1990 in Kenya, Togo, and Zaire, and, by 1995, in Burundi, Cote d'Ivoire, Lesotho, Nigeria, Sudan, and Swaziland; (2) initiate immunization and ORT components in the private sector in Sudan; and (3) carry out policy dialogue and policy reform related to Child Survival.

Benchmarks in Health and Child Survival

Key benchmarks which A.I.D. will track in all Child Survival emphasis countries are:

- Percent of children (12-23 months) who were vaccinated by age 12 months with BCG, DPT 3, Polio 3, and measles vaccine;
- Percent of women 15-49 years delivered in the last 12 months who have received two doses of tetanus toxoid;
- Percent of infants/children (0-59 months) with diarrhea who were treated with ORT;
- Percent of infants/children (12-23 months) who have a weight-for-age more than two standard deviations below the mean;
- Percent of infants (0-11 months) who are being breastfed and are receiving other foods at an appropriate age;
- Infant mortality rate; and
- Collection and allocation of user fees.

C. *Education*

Increasing incomes is at the heart of a broad-based economic growth strategy. Raising the level of general education has been shown to be an effective way to raise incomes and spread the benefits of modernization. The impact of schooling on development as a whole is positive and far-reaching.

A review of 18 studies of farmer education and farmer productivity in 13 developing countries reported in a World Bank Policy Study: Education in Sub-Saharan Africa (1988) concluded that farmers who have completed four years of formal schooling produce, on average, eight percent more farm output than their non-educated counterparts. When new crop varieties are available and innovative planting and fertilizing methods are extended, the increase in productivity is approximately 10 percent. Across a sample of 88 countries, increases in literacy rates have also been found to be associated with an increase in the real gross domestic product.

Schooling has other cognitive and noncognitive effects on productivity. The former is the development of a capacity to think and learn, and in more sophisticated terms, to analyze and apply theoretical knowledge. The latter explains receptivity to new ideas, competitiveness, and

The Niger AEPRP

Much of Africa's economic activity is conducted by the informal sector — small, often family-operated, firms, which are unable to fulfill the myriad paper requirements to be formally licensed, or which are seeking to avoid taxes and controls. This is particularly true in intra-African trade. From a government's point of view, economic activity in the informal sector is almost by definition undesirable as it implies lost tax revenues, reduced regulatory control, and lax standards.

The Niger AEPRP is designed to reduce the barriers to formal sector trade of livestock and agricultural products between Niger and its neighbors. By reducing licensing requirements and eliminating export taxes, the Niger AEPRP is intended to shift much of this informal trade into the formal economy. One effect of this shift will be to permit traders to capture economies of scale, as products are shipped in larger quantities, rather than in small loads to avoid detection. These transport cost reductions, as well as savings associated with elimination of taxes, bribery and red tape, should result in higher prices to producers and increased production and export.

willingness to accept structure and discipline. Both sets of effects have a positive influence on productivity and development.

However, development of Africa's educational systems is threatened by economic stagnation, population increases, and public sector mismanagement of available resources.

Lessons of Experience

One in three persons in Africa is currently of primary or secondary school age and the school age population is growing at over 3 percent per year. The annual cost for simply maintaining current primary school enrollment ratios (75 percent of the school age population) by the year 2000 is about $4.5 billion (using 1983 figures of $50 per pupil per year). Achieving universal primary education by the year 2000 would mean adding 80.5 million pupils to the system, a 157 percent increase over current enrollment, and commensurate increases in recurrent costs. New classrooms and the maintenance of existing structures and equipment would require an additional $11 billion in the year 2000.

Given these enormous costs, A.I.D.'s interventions must focus on a few key problems. To make the best use of limited resources, assistance has so far been concentrated in six countries: Cameroon, Liberia, Lesotho, Botswana, Zimbabwe, and Swaziland. Basic education projects in these countries, with authorized funding of $145 million, have trained over 13,000 primary teachers, 800 education managers, 370 university and college teacher-trainers (almost half of whom have been women). These projects have also produced and distributed over 25 million copies of affordable classroom learning materials. In addition to the Africa Bureau program, two A.I.D. centrally funded activities, Improving the Efficiency of Educational Systems (IEES) and Basic Research and Implementation in Developing Education Systems (BRIDGES), furnish technical assistance to four African countries to enhance educational planning, management, and research.

To guide future investments in education, the Bureau has recently issued a Basic Education Action Plan. The Plan highlights the positive correlation between investment in education and increased entrepreneurship, agricultural productivity and innovation, improved health status, and reduced rates of population growth. The Plan ranks countries in terms of new investments in education and suggests assistance options based on a country's demonstrated need and willingness to implement needed policy reforms. In implementing this sectoral Plan, A.I.D. will assist African governments to implement reforms that increase equity in educational services (including raising the rates of female enrollment), decentralize school administration, diversify sources of school finance, expand private schooling, and improve system management and efficiency to contain costs and boost quality.

The Africa Bureau also is exploring options for increased support of basic education. Because of concerns over maintaining the productivity of our investments, we intend to start by helping those countries whose educational policies and resource management promise to generate greater returns on such investments.

In addition to project assistance to the sector, A.I.D. will support education with targeted non-project assistance (sectoral budget support linked to policy reform agendas), PVO-assisted integrated food aid/education activities, and co-financed multi-donor assistance programs.

Benchmarks

Key benchmarks will be:

- the share of governmental budget going to primary education;
- enrollment levels;
- drop-out and repeater rates for primary and secondary schools (measures efficiency of basic education systems); and
- literacy rates.

D. *Infrastructure for Transport and Production*

Facilitating the movement of agricultural inputs and outputs and improving access to social services by the rural majority are two of the most effective ways the U.S. can assist the immediate objective of economic stabilization and the long-term objective of sustained growth. Adequate transport infrastructure fosters increases in production, marketing options, producer prices, and the flow of goods, services, and passengers. A key concern in the past and one that will continue to be central to A.I.D. infrastructure activities is maintenance — the public sector's capacity to protect its investments for the public good.

Lessons of Experience

A.I.D. has a number if infrastructure projects underway. Rehabilitation of the region's roads and railways is a key component of our Southern Africa Regional Program with the SADCC member states. As a result of planned infrastructure rehabilitation through the TAZARA project and Tanzania's Agricultural Transportation Sector Program, southern Africa will gain significant economic benefits, including increased production, trade, and access to services.

A.I.D. also supports the development of farm-to-market roads in the Mali Haute Vallee development project and national and regional road development in rural Zaire's Shaba Refugee Roads Project. In concert with the World Bank, A.I.D. is co-financing Guinea's Agricultural Infrastructure Development Project and

Chad's Strengthening Road Maintenance Project.

A.I.D Program Directions

Infrastructure development requires public and private sector resources and cooperation. The Bureau will continue to work on public sector management of infrastructure investments, including reliance on private firms for construction, rehabilitation, and maintenance.

Benchmarks

Key benchmarks which A.I.D. will monitor will be:

- miles/kms of roads/railways rehabilitated and maintained;
- costs of road rehabilitation over time;
- share of the private sector in the provision of rehabilitation and maintenance services; and
- costs of access to services, and related utilization of services;
- price differentials across markets and across seasons; and
- transport costs as a percentage of total cost of production and marketing.

Strategic Objective Two

Strengthening Competitive Markets to Provide a Healthy Environment for Private Sector-led Growth

Markets and Economic Growth

A country's economic growth — and thus how well its population can meet their needs for food, housing, education, and jobs — is determined by the rate of growth of its resources (primarily capital) and the efficiency with which resources are used. Where there are incentives to invest in enterprises of low productivity or, conversely, disincentives to invest in activities which will bring high returns, economic growth will suffer.

Experience has shown that, with few exceptions, open, competitive markets provide the best incentive structure for economic growth. Market-determined prices accurately signal supply and demand conditions and permit both consumers and producers to better gauge where their interests lie. Removal of distorting price or regulatory controls over markets in Africa should. therefore, contribute to economic growth by allowing resources to flow to productive investments rather than being distributed as subsidies or rents to specific groups inside or outside the country.

It is also important to extend the reach of markets in order to ensure that growth is broad-based and benefits are widely shared. This requires expansion of transport and communications and provision of adequate financial liquidity to support trade.

Target 2-1

Liberalized commodity markets

By liberalizing trade in commodities, many African countries (Mali, Gambia, Ghana, Guinea) have already reduced the public sector financial losses which had been resulted from policies involving fixed pricing, subsidized production and/or consumption, and regulations prohibiting private transport of commodities. In these cases, transactions costs have been reduced and markets appear to be functioning more efficiently for both consumers and producers.

Some African governments (e.g., Kenya) have continued to control staple food commodity markets, while liberalizing markets for other commodities. Still other governments have liberalized grain markets, while retaining control over markets for other important commodities, (e.g., meat, pharmaceuticals, and cloth).

Liberalization has been slower and more limited in the international commodity trade. Governments in food-insecure countries (e.g., in the Sahel) are reluctant to permit exports of food crops. Governments which rely on export taxes and import tariffs as revenues have been reluctant to cede control over export commodities (e.g., animals in Niger) or to reduce domestic protection levels. These positions should be re-examined and analyses which explore alternatives carried out. Where complete deregulation of markets proves unfeasible, ways should be found to minimize the negative effects of distortions on overall economic growth.

Lessons of Experience

Much of A.I.D.'s early experience in supporting policy reform in Africa has been in the area of agricultural marketing policy reform. Initial efforts focused on reducing inefficient public sector involvement in agricultural markets and revising official pricing policies. Lately, we have paid greater attention to export markets and the international trade sector. Although many of these efforts are very recent, price liberalization has led to expanded output in some countries. In other cases, the production response has been more limited, probably due to non-price constraints.

Other interventions have been suggested to improve the working of markets, but we do not yet have good evidence on their effectiveness. We lack good information on the value of market information systems, or on the provision of marketing infrastructure. We are also not sure how donors best assist in linking African countries to world markets, in both traditional and non-traditional export sectors.

While there is no doubt that market liberalization is necessary for long-run growth, there can be serious short-run costs. Liberalization leads to major shifts in relative prices, increasing the profitability of some industries and reducing the profitability of others. This could lead to temporary unemployment in those activities which are in decline. Equally important, price shifts can reduce the real purchasing power of certain groups by increasing the prices they face without increasing their incomes. In some countries, certain poor groups could suffer from liberalization in the short run. Finally, the shift from public to private provision of certain goods, particularly agricultural inputs, may be inhibited in some countries by the lack of traders and entrepreneurs to ensure competitive markets.

A.I.D. will monitor the effects of market liberalization in several African countries through its Cooperative Agreement with Cornell University, centrally-funded research activities, and exchanges of information with multilateral organizations. This will permit us to document short-term impacts and to design compensatory programs if necessary. We will also develop programs to guard against the formation of monopoly or monopsony power in liberalized markets.

A.I.D Programs

A.I.D. will continue to use its financial and technical resources to support the liberalization of commodity markets. Recently, we have paid a great deal of attention to liberalizing export markets (e.g., the AEPRPs in Niger, Madagascar, Uganda, Togo and Malawi). Other programs have dealt with rice (e.g., Madagascar and Gambia P.L. 480 programs) and other food crops. A new area of involvement is market infrastructure.

Benchmarks

- the number of commodity markets in which prices are market-determined, rather than administratively set;
- the level of distortion between border prices (based on world market prices) and domestic prices;
- transactions costs for key commodities;
- price correlations across space and time;
- seasonal price fluctuations; and
- market volumes and numbers of sellers.

Target 2-2

Liberalized factor markets

The ability of Africa's private sector to respond to new investment opportunities is constrained by its access to capital. African financial systems and capital markets have been weak in many respects:

- Because of interest rate ceilings and lack of rural banking centers, formal capital markets have failed to mobilize domestic savings;
- Negative real interest rates and allocated credit reduce the efficiency of investment;
- Formal credit facilities, except for public development banks, fail to provide term credit;
- Equity markets are weak or non-existent, making it very difficult to broaden indigenous ownership;
- Legal systems do not provide easy mechanisms for securing loans and forfeiting pledges in the face of nonpayment; and
- The public sector has pressured both public and private banks to provide loans to entities (largely parastatal) with little hope of repayment, leading to widespread decapitalization of the banking system.

Labor market imperfections are much more difficult to deal with. Many African countries legislate limits on firing, minimum wages, and the employment of women that are at variance with economic growth. African growth must take advantage of the continent's relatively abundant labor, but high wages make Africa much less competitive in international markets. Restricted labor mobility also reduces the ability of countries to adjust to the changing international economy and raises investment costs.

Lessons from Experience

A.I.D. has always had a large number of credit programs, but few which have dealt with financial problems in a systemic way. Recent evaluations of a number of credit union projects demonstrate that credit unions provide useful linkages between formal and informal credit markets. An A.I.D. pilot program in Senegal demonstrated that rural producers are willing to pay high nominal rates of interest (25 percent) in order to gain access to credit, and that repayment rates are high. Research in Niger, Zaire and other countries indicates that: (1) directed credit programs are doomed to fail; (2) credit for "non-productive" uses such as housing and education, are as important in promoting growth as production credit; and that (3) it is limited access rather than interest rates which reduces effective demand. Other problems limiting the availability of credit in Africa are that: (1) the private banking system is not willing to provide long-term credit, and (2) the development banks are bankrupt because of mismanagement and political allocation of credit.

Myths About African Agriculture

Recent research has exploded a number of myths about African agriculture. For example:

- African farmers are largely subsistence-oriented. This is not true. Most farm families are involved in a variety of commercial activities ranging from agro-processing (e.g., beer brewing), to trade to manufacturing (e.g., tailoring), to wage labor. For many, if not the majority of African farm households, cash income earned off the farm is greater than that earned on it.

- African farmers do not purchase foodgrains. Broadly apeaking, there are three groups of farmers: (1) those who are successful commercially and earn substantial cash incomes rom marketing their crops; (2) those who, on average, produce enough for their own needs, but who in bad years must buy food and in good years are able to sell food; and (3) those who are unable to produce enough food for their onsumption needs and must use income earned from other endeavors to buy food. Even in good years, this last group may be as large as one-third of farm households.

- Increasing cash crop production decreases food crop production. While not conclusive or universal, evidence suggests that those farmers who produce surplus food for urban and rural markets are often those with cash income from other crops. The cash income from cotton, tobacco, or coffee production allows farmers to intensify their food crop production by using fertilizer, improved seed and hired labor. In short, increases in cash cropping may have positive effects on food production.

A.I.D. Programs

A.I.D. has numerous activities underway in this sector. It has developed a banking sector program for Zaire (currently on hold because of Zaire's difficulty in keeping on a stabilization program). Banking sector reform is being addressed in an AEPRP planned for FY 89 in Senegal. A.I.D. is helping to finance an equity fund with OPIC aimed at increasing foreign investment in Africa. Credit union and cooperative development programs are being expanded in several countries (Malawi, Cameroon, Lesotho) to increase village-level resource mobilization and to link small borrowers to the larger, formal financial sector.

In the future, we intend to examine African financial markets in more detail to determine how best to increase efficiency. We are also exploring the use of new, innovative financial instruments to promote economic growth. Debt-equity swaps are one of these instruments; they are now being widely utilized in Latin America although they are untried in Africa. Such swaps involve the reduction of LDC foreign exchange debt in conjunction with new, productive investments in the developing countries — thus the term "Debt for Development" is often used. In conjunction with the African Development Bank and OPIC, we are hosting a conference for African financial leaders on this topic in Abidjan in February, 1989.

Benchmarks

A.I.D. will monitor, in selected countries, key benchmarks bearing on:

- mobilization of domestic savings and characteristics of new savers;
- lending patterns, interest rates, and repayment records;
- controls on labor mobility and on hiring and firing;
- number of countries which have positive real interest rates;
- amount of credit allocated by the market rather than administratively;
- relationship between formal and informal sector wages; and
- formal sector employment.

Strategic Objective Three

Developing the Potential for Long-term Increases in Productivity

Land and related natural resources, labor, capital, and technology are needed for production in Africa. The most efficient productive technique in the short term, of course, is that which results in the greatest output per unit of input today. However, this is not necessarily the most sustainable method of production. In most economies, investments are, therefore, made to ensure the continued availability of resources and to develop technologies which will permit greater productivity in the future.

The sector in which long-term increases in productivity are currently most threatened is agriculture. The mainstay of most African economies, agricultural productivity, as measured by per capita foodgrain production, has been declining across the continent since the early 1960's. Forests have literally disappeared and animal production is increasingly constrained by the diminishing quality and quantity of available pastureland. Attention must be paid now to:

- the conservation of the natural resources on which such productivity depends;
- the development of new technologies which permit these resources to be used more efficiently; and
- the improvement of job-related skills outside as well as in the agricultural production sector itself.

Target 3-1

Improved natural resource management

Natural resources are the long-term physical capital on which a nation builds and grows. The management of these resources — water supply and water quality; air quality; soil fertility; minerals; vegetative cover; and plant and animal life — is critical for sustainable growth. Africa's natural resources have become seriously degraded, with the rate of deterioration much accelerated since the early 1970's. The causes of this deterioration are widely known: rapid population growth, general declines in rainfall, and, in many cases, a need for income or production today even if it compromises the potential for income tomorrow.

Sustainable growth in this context means agricultural production which does not destroy the environment. In Africa, with rapid population growth putting pressure on limited soil, water and biological resources, this poses a challenge of unprecedented dimensions. For unlike other areas of the world, environmental degradation has not resulted from the limitless greed of wealthy developers, but from the need of poor, hungry peasants and herders to expand production into ever less productive lands.

Thus, environmental protection is linked to success in finding new, diversified sources of income for those farming on hillsides, cutting down forests for fuelwood, or pushing their herds into fragile rangelands. Technologies are also needed to encourage better resource use as a way of increasing incomes rather than reducing them. Since private incentives do not protect the land when there is open access, special efforts must be made to provide incentives for preserving natural resources.

Lessons of Experience

A.I.D. has long recognized the negative effects of natural resource mismanagement and, as a routine part of project design, addressed environmental concerns. In the last decade, African countries, other donors, and A.I.D. have initiated a wide range of interventions aimed at improving the natural resource base in Africa and halting the ecological deterioration.

Experience with these interventions has been sobering. While there are striking examples of successful change in natural resource management, many ambitious projects involving village woodlots, large-scale plantations, and top-down conservation initiatives have not worked. A 1984 workshop on this subject concluded that "purposeful change" was needed to: (1) tap the potential of participatory, on-farm tree planting and natural woodland management options, (2) build African capability to plan and execute field activities, and (3) reformulate policies to permit greater integration of forestry and agricultural concerns and strengthen security of resource tenure.

A.I.D. Programs

In February, 1987, the Agency adopted its Plan for Natural Resources Management in Sub-Saharan Africa. The Plan establishes natural resources as a priority for Africa and targets desertification, deforestation, soil degradation, and loss of biological diversity as key environmental concerns to be addressed.

A.I.D. activities to implement the Plan are coordinated with inputs from other donors and PVOs. A centrally-managed Natural Resources Management Support (NRMS) project provides a variety of technical services to Missions, host governments and PVO/NGOs and should serve as a catalyst for encouraging expansion of natural resource programs. Services provided under the NRMS Project to date include: natural resources assessments in eight priority countries; project design services in five countries; nine biodiversity grants awarded to PVO/NGOs; a comprehensive PVO/NGO survey, laying the foundation for implementing the PVO/NGO component of the Project; and a variety of training, evaluation, and planning services. These will continue through the next two to three years.

Awareness of the importance of natural resources and their role in A.I.D. development programs has been substantially increased. This is resulting in modifications to existing projects and re-examination of host country policies which affect natural resources.

Benchmarks

Over the next two to three years, A.I.D. will monitor, at selected sites, key benchmarks concerning natural resource management:

- the number of community/individual initiatives in natural resource management;
- woodfuel prices;
- area of lands and forests under management;
- public policy revisions which provide farmers and herders incentives for more sustainable resource man-

agement (land tenure, tree tenure, immediate economic benefits); and

- the number of voluntary users of improved management techniques.

Target 3-2

Accelerated agricultural technology development and transfer

At independence, most African countries were heavily reliant on agriculture (livestock as well as crops) for the generation of national as well as household incomes. In 25 years, agriculture's importance has declined to 40 percent of Gross Domestic Product (GDP). However, some 70 percent of African households depend on agriculture for a large share of their employment and incomes. Foodgrain imports already place severe demands on foreign exchange in many countries. With high population growth rates, the creation of jobs and incomes in the agricultural sector and the expansion of domestic food supply have to be high priorities for African governments.

African farmers and herders lack the technology to respond to growing domestic demand and to be efficient competitors in international markets. For example, chemical fertilizers are seldom applied to foodgrains although their use for nonfood export crops (e.g., cotton) and for vegetable production has been growing rapidly. Only a modest portion of crop hectarage is planted in varieties which have been improved through research and result in high yields per hectare. Supplementary sources of power (for processing as well as cultivation) are limited.

The reasons for this technology gap are multiple. Physical conditions are difficult and diverse, complicating the job of adapting imported technology. Labor constrains production at certain points of the growth cycle. And the food quality of improved varieties is not always that desired.

New or adapted technologies are needed to: (1) level out production cycles, particularly in rain-short years; (2) increase the possibilities for transformation of local production (reducing costs, increasing value-added, and strengthening the links between rural and urban areas); and (3) add new crops to diversify incomes, spread risks, and meet nutritional needs. With improvements in market performance and infrastructure, increased market opportunities for basic food crops as well as feedgrains and nonfood crops should increase the demand for new technologies.

<u>Lessons of Experience</u>

In the 1970's and 1980's, many hoped that the technical breakthroughs needed in African agriculture were just over the horizon and that Africa would soon share in the agricultural breakthroughs which had occurred in Asia. This hope has not been realized on the scale anticipated. Successes in generating agricultural technologies to expand, diversify, and intensify production in a wide variety of ecological conditions have been limited. Successes in transferring technologies from other regions have also been limited. All of these efforts have been constrained by the failure of African governments to develop cost-effective systems for delivering inputs and credit and to provide infrastructure and institutional support. Extension services in particular have been poorly equipped.

However, there have been some successes. Hybrid maizes in Kenya, Zambia, and Zimbabwe raised productivity for farmers with adequate lands and timely access to complementary inputs. New cotton technology packages (which included a rotation of maize) also had a major impact on agricultural productivity in some countries (although principally on farms with adequate rainfall, labor, and land). More recently, a non-hybrid maize variety introduced in Cameroon has increased productivity among farmers without access to other inputs.

It has also been shown that natural resource conservation technologies can contribute to sustainable increases in agricultural productivity. Windbreaks planted in the Majjia Valley in Niger have resulted in a 17 to 24 percent increase in cereal production without additional changes in the production system. A.I.D. experience with bringing a degraded forest under management in Niger demonstrated technologies which can increase productivity even under severely constrained conditions.

In sum, the evidence shows that Africa's small farmers can and will adopt new technologies which are: (1) suited to their natural resource bases; (2) result in crops which have ready markets; and (3) generate incomes large enough to support investment in more intensive and efficient production techniques.

The challenge for the future is a complex one. There is a need for new technologies which are suited to the present natural resource base but also serve to improve it where it is already degraded. There is also a need for technologies which will result in effective wage rates which are more attractive than those outside of agriculture. Finally, there is a need for technologies to increase the production of commodities which will find ready markets at home and abroad.

This latter point is important: to intensify agriculture and increase its profitability, it is essential to use improved, often purchased, inputs, especially fertilizer and seed. Agricultural research in Africa must focus on commercial as well as food potential, on opportunities for marketing of cash crops, and on the increased use of purchased inputs, including labor and capital. With expected population growth rates in the vicinity of three percent, the creation of jobs and incomes in the agricultural sector and expansion of the domestic food supply remain top priorities for almost all African governments.

On-farm technologies which meet these requirements are currently being developed and made available to farmers. These efforts draw on the work of both national agricultural research systems (NARS) and the international agricultural research centers. In addition to basic seed variety development, research activities have focused on cultural practices (e.g., modifying plant populations, adding farm manures to improve needed soil nutrients, improved tillage) and soil and water conservation techniques such as windbreaks, water catchments, and alley cropping.

Many of the improved technologies have first been developed at the international agricultural research centers and then adapted at the NARS, often assisted by A.I.D. bilateral projects. On-farm testing is crucial in determining what farmers will adopt. Some examples of technologies which have made it so far: (1) in Cameroon, high yielding maize varieties, such as CMS-8501, yield 40 percent more without fertilizer than traditional varieties, allowing potential net income gains of 20 to 30 percent per hectare; (2) in Senegal, on-farm cowpea yields have been increased by 35 to 50 percent by using a variety (CB-5) which matures in 60 rather than 90 days; and (3) in Sierra Leone, researchers have identified a drought-tolerant, early-maturing sweet potato variety which meets existing taste preferences while yielding more per hectare than traditional varieties early enough in the season to meet food needs in the period just before the rice harvest. These kinds of examples are being replicated in programs across the continent.

A.I.D. Program Directions

Recognizing the importance of international and national agricultural research to the successful development and transfer of agricultural technologies, the Africa Bureau supports a research agenda focused on the following priority problems:

- increasing and sustaining the productivity of rainfed agriculture and fragile lands with ecologically-sound farming systems (including crops and livestock);
- improving nutrient recycling;
- exploring opportunities for mechanization and higher-output agriculture within the context of current farming patterns;
- increasing the value-added in agriculture through innovations in high-value cash crops, livestock, and fish systems;
- using biotechnology applications for crop improvement and yield stabilization, particularly in drought-stressed areas, and for animal reproduction and health;
- paying attention to the role of women in labor provision, decision-making, and income control in farm households; and
- improvements in postharvest processing and storage systems which would generate market town income and employment opportunities.

The Bureau's agricultural research program is described more fully in the 1985 Plan for Supporting Agricultural Research and Faculties of Agriculture. Seven national technology-generating programs and fifteen technology-adapting programs have been identified for support in Africa. New projects are coming on-stream in Senegal, Sudan and Burkina Faso, all of which will explicitly

Grain Market Instability in Mali

In a very good year, Malian grain production falls short of the national requirement by about 10 percent. In a very bad year, production is only half that of a very good year. Variation across regions compounds the problem. In a good year, five of the seven regions produce a surplus over rural consumption needs; in an average year, only one region attains this level of production. During bad years, farm households increase their market purchases to cover shortfalls. In good years, market demand drops as farm households consume their own production; traders find turnover, margins, and profits reduced.

Such market instability undercuts the growth process. Farmers who produce surpluses in good years but are deficit in bad ones will not be motivated to increase production for the market when their experience tells them that they are likely to encounter low prices and sluggish demand each time they do manage to have a surplus. Traders will hesitate to invest in grain storage and other infrastructure when the profitability of these investments are low. Yet the absence of such infrastructure keeps costs high and contributes to continued market instability.

Botswana: Prepared for Famine

Although Botswana experienced a major drought for five consecutive years from 1982 to 1987, no one died of famine. During the most intense period of famine in 1987, about 60 percent of Botswana's 1.1 million inhabitants received some type of government assistance. In that same year, Botswana imported 95 percent of its staple food, sorghum. What allowed Botswana to cope so well? The first answer is sustained economic growth. Botswana's had the fastest growing economy in the world from 1973-85, with a real rate of GNP growth of 11 percent per year (propelled by diamond, mineral and livestock exports). The second answer is that Botswana has a democratic government and strong opposition parties committed to combatting drought and hunger and helping rural people. Third, Botswana had a cheap and reliable famine early warning system — opposition parties and a free press. While care must be exercised while drawing lessons from this example for other countries in the region, some general lessons are possible: (1) countries with a high degree of crop and livestock production instability need to develop a permanent bbut cost-effective institutional capacity to deal with drought; (2) famine prevention is too complex and multifacted to be left to a single ministry such as the Ministry of Agriculture (in Botswana, inputs from five ministries were regularly coordinated); and (3) there is a need to tackle both food availability and food access problems.

[Drawn from an analysis by Rukuni and Eicher (1987).]

link with extension services to improve the efficiency of the transfer process. Six agricultural faculties have received assistance under the Plan: Cameroon, Zimbabwe, Kenya, Burkina Faso, Rwanda, and Uganda. A new project to strengthen faculties of agriculture in southern Africa, which will utilize a col-laborative regional approach, is being planned for Malawi, Zambia, Zimbabwe. and Tanzania.

A peer review of the Bureau's progress in implementing this Plan is planned for the near future as are evaluations of a centrally-funded support project (known as SAARFA) and of country-level data on the contribution of agricultural research to food security and consumption. Results of these reviews will be taken into account as the Bureau develops a more comprehensive sectoral strategy for agriculture.

Benchmarks

The following benchmarks related to the development and use of new agricultural technologies will be monitored:

- budgeting and staffing of agricultural research and extension facilities;
- number of released technologies;
- rates of adoption by farmers of improved seed, equipment, and other inputs such as fertilizer;
- farm incomes: production of cash crops, marketing of food crops, value of home-produced consumption; and
- crop production (total output) and productivity (wage rate/person-day of labor; yield per hectare).

Target 3-3

Expanded skills and productivity on the job

The importance of formal education to the development of job skills and productivity has already been discussed (Target 1-3). The importance of labor market liberalization in increasing labor mobility and raising aggregate productivity has also been noted (Target 2-2). However, given the current rates of illiteracy in Africa, it will be many years before improvements in the formal educational system will enhance productivity. Further, labor mobility in the short term is likely to be impeded by the lack of learning and job skills in the labor force.

Attention, therefore, must be directed to expanding job skills critical to raising productivity and incomes in the short term (e.g., skills to improve farm management; entrepreneurial performance — market analysis, cost-accounting; cooperative management; policy analysis; and computer use) and to assuring equitable access to skills training to both men and women.

Lessons of Experience

A.I.D. has already played a major role in supporting training which increases, within a short timeframe, African job skills. Among the efforts which have a solid track record are:

- Graduate-level training in science, economics, and other disciplines. This academic training is supplemented by support for graduates after they return, in agricultural research, financial management, public administration, etc..
- Seminars and workshops for policymakers and academics on a wide range of topics, from arid land conservation techniques to implementing policies of economic liberalization;
- Networking opportunities for African scientists and scholars to maintain the currency of their knowledge and to benefit from the exchange of experiences across countries;
- Farm-level training in production and resource conservation techniques for thousands of men and women farmers across the continent;
- Small business training and other interventions which improve the climate for entrepreneurial investment; and
- Instruction in cooperative and credit union management, providing more direct access to savings and loan services.

A.I.D. Programs

A.I.D. intends to sustain these efforts in several ways: (1) by providing DFA funding for scholarships abroad through special training projects (such as the regional Human Resources Development project); (2) by developing African training institutions which can provide less expensive and more immediately applicable training; (3) by incorporating training components into both project and non-project assistance activities; and (4) by collaborating with Peace Corps and PVOs to provide on-the-job training to thousands of farmers, business owners, and cooperatives/credit unions.

Two new areas of training need have emerged in recent years: economics/policy analysis and computers. It is expected that attention to these areas will grow as Africans realize the importance of being able to do their own analyses of economic and reform issues and as computer technology spreads.

Benchmarks

A.I.D. will monitor the following benchmarks regarding skills development and labor productivity, disaggregated by gender:

- numbers of people receiving short- and long-term training;
- graduate degrees acquired;
- work productivity of U.S. graduates on the job in their home countries;
- farmer training;
- business skills development; and
- estimated impact of skills development on incomes.

Strategic Objective Four

Improving Food Security

Food Security Remains a Priority Concern

In few African countries today do all citizens have access, at all times, to enough food for an active, healthy life, i.e., food security. Estimates of the number of people in sub-Saharan Africa who are normally food-insecure range from a third to a half of the population.

Global food supply is not the problem. Countries and individuals who do not produce enough to meet their own consumption needs ("self-sufficiency") can purchase all the food they want — if they have adequate incomes and if they have adequate access to markets.

However, large numbers of people in Africa do not have this income or market access, giving rise to chronic food insecurity. In many African countries, less than half of the people are able to obtain sufficient food from their own efforts at farming. Most people, even farmers, must enter the market to purchase food. The result of this chronic food insecurity is inadequate levels of nutrition, high morbidity, and early death.

In recent years, however, food insecurity has also resulted from drought and civil disturbance. Although this kind of food insecurity is termed "transitory," it is likely to be a recurring problem for the foreseeable future. The challenge for both African governments and donors is to recognize that it is the causes of food insecurity which must be addressed, not just the symptoms. This perspective is hard to maintain when television screens are filled with images of starving children.

In addition to general support for increased economic growth, A.I.D.'s efforts to improve the food security of African countries will address four specific concerns:

- finding ways to use food aid so as to reduce interyear instability in supply and, perhaps, prices (rather than increasing that instability as is frequently the case);
- increasing the capacity of donors and African countries to anticipate serious droughts and other emergencies and to provide timely and effective assistance when emergencies occur;
- finding ways in the short term to increase incomes through targeted welfare programs to those most in need; and
- increasing agricultural production and utilization.

Target 4-1

Reduction in year-to-year instability

Large food deficits one year followed by surpluses the next place extraordinary strains on economic systems. Markets are forced to expand and contract; directions of net commodity flows reverse. Foreign exchange availabilities can be stretched thin to cover food imports in one year while in the next unsold grain inventories can lead to gridlocked domestic credit systems. Highly variable food prices, critical to workers' real incomes, can make it difficult to maintain stable wage policies. This threatens overall economic stability (see Target 1-1).

Lessons from Experience

Mali's experience shows the negative impact on growth that fluctuations in food production, demand, and supply can have. An analysis of this case suggested that in years of high production, sharp reductions in market demand could lead to decreased earnings of farmers and traders, thus discouraging farmers' investments in increased productive capacity and traders' investments in increasing storage capacity. Traditional producer support price measures which could, in theory, bolster farmers' incentives to invest, were shown to be likely to overwhelm the public sector's financial capacity and might, if incompletely applied, destabilize markets further. This analysis further suggested that solutions to market instability must be found in the diversification of rural incomes and cropping patterns and in the development of technologies which would permit higher production in poor years.

A.I.D. Programs

A.I.D. can play a role in smoothing out downward fluctuations in food supply through the provision of food aid. Food aid which is sold through competitive markets can reduce the need to spend scarce foreign exchange for food imports in years of domestic production shortfalls. Joint programming of the local currency generated by the sales can also help recipient countries to take steps to address the underlying causes of chronic food insecurity.

Much work has to be done to improve the management of food aid programs. In the past, we have had problems with food aid arriving at the wrong time, in the wrong commodity, and in the wrong quantity. These difficulties may stem in part from the multiple objectives of the P.L. 480 program. The development impact is only one among several objectives and often is not the first to be considered in approving a particular country program.

A.I.D. is also assisting countries to conduct the analyses necessary to develop macroeconomic and sectoral policies which will lead to more stable food markets and increased food security. Through our Cooperative Agreement with Michigan State University, we are already working on this problem in Senegal, Mali, Somalia, Rwanda, Zimbabwe, and the SADCC region.

Benchmarks

The benchmarks which A.I.D. will track in order to gauge progress in market stabilization will be:

- the degree to which food aid flows compensate for shortfalls (without destabilizing local markets);
- the share of food aid in total food imports;
- commercialization of agriculture; and
- stability of consumer price indices.

Target 4-2

Increase famine preparedness

Given the uncertain climate in the Sahel, and given the persistence of civil unrest in the Horn of Africa, famine is certain to remain a threat for the foreseeable future.

Lessons from Experience

The contrasts in management of drought relief between the 1972/74 and 1983/85 crises showed substantial growth in capacity to deal with such catastrophes. African governments, private voluntary organizations, and donors not only recognized the potential dimensions of the disaster sooner, but also swung into action in a more efficient way. As a result of the evaluations of the 1983/85 experience, famine early warning systems were further reinforced and the broader issue of "drought-proofing" production re-examined.

There has been vigorous debate among donors on these issues, particularly in the Sahelian region where the Club du Sahel and the CILSS (the interstate committee to combat drought in the Sahel, formed by seven countries in 1976), have been active.

A.I.D. Program Directions

A.I.D. will continue to provide emergency food assistance as needed to cope with famines. However, we will increase its efforts to support famine-preparedness by: (1) developing famine early warning networks in countries through the Famine Early Warning Systems (FEWS) project; (2) improving food needs assessments; (3) supporting grassroots PVO activities which provide the necessary community-based links for both assessing needs and managing relief and prevention (e.g., village grain stores, community redistribution mechanisms); and (4) encouraging the growth of public and private institutions which can respond to food shortages. The establishment and maintenance of emergency buffer stocks has shown itself to be useful in providing a hedge against the sudden appearance of famine, although other donors are more active than A.I.D. in this area. We will continue to coordinate with them and to contribute to these stocks on a case-by-case basis.

The incorporation of a "drought-proofing" objective into agricultural development strategies is an area which deserves further exploration. Other rural development strategies which foster the diversification of household incomes may also be seen as contributing to overall famine preparedness.

Benchmarks

A.I.D. will monitor indicators of:

.capacity to project and monitor food needs at national and sub-national levels; and

.capacity to provide emergency food on a timely basis.

Target 4-3

Providing food and income to those most at risk

Observation shows that the people most at risk of both chronic and transitory food insecurity in Africa are those with limited access to good land, capital, and even to labor. Frequently, poverty is associated with certain geographic areas, where good land or good water are scarce relative to population; with certain age groups, particularly the old and the children; and with certain household types, particularly female headed households.

Experience also shows that the most effective role that governments can play in addressing household and individual food insecurity is to provide the policy environment, information, and infrastructure needed for: (1) markets to work, (2) people to find employment, and (3) resources to flow to productive uses.

This leads to a dilemma in resource-poor African countries: On the one hand, the only way to solve the problem of national and household food insecurity over the long term is through sustained and broad-based economic growth. On the other, people are poor and hungry today and pockets of poverty are likely to persist. These households and individuals may need targeted support. However, providing such support on a reasonable scale diverts resources from investments needed to increase long-term growth. In short, there may be a tradeoff between what is needed to solve the poverty problem in the long run, and to cope with the depth of poverty in the short-run. There are no easy solutions to this dilemma.

Lessons from Experience

It is becoming clear that, in the poorest African countries, reforms which raise foodgrain prices probably increase incomes directly only for those farmers in the mid- to high-income range, farmers who already produce a marketable surplus of foodgrains. It is also clear that the poorest farmers, who do not currently have the capacity to increase production significantly in the short-term and who have to buy food, could be hurt further by rising market prices. Thus it is possible that price increases intended to increase production over the long term can decrease consumption for some groups in the short term. This suggests that targeted food aid to help vulnerable groups might be desirable.

Unfortunately, there are a number of problems with providing targeted food aid in Africa. Experience has shown that direct feeding programs in Africa have been extremely expensive and, in most cases, ineffective in addressing long-term nutritional problems. The extra food supplement for a targeted recipient (e.g., small child) often simply releases that recipient's normal share for someone else. The costs of transporting food-for-work often outweigh the wage value of the commodity. Finally, income supplements or more broadly-targeted food subsidies are often too expensive to be borne by African governments in financial distress.

A.I.D. Programs

We have no clear answers to this dilemma. We intend to develop, collaboratively with PVOs, new approaches to using project food aid for long-term development. We will also carefully evaluate food aid activities and will draw on the analyses currently being conducted under the auspices of the Food Security in Africa Cooperative Agreement being implemented by Michigan State University and our Cooperative Agreement with Cornell University on Structural Adjustment and Poverty. We are committed to working with other donors and with the PVO community to develop workable solutions to this problem.

Benchmarks

Over the next two to three years, A.I.D. will develop a system to identify and track the size, characteristics, and location of groups most at risk of food insecurity. This is a challenging task as these groups are likely to vary from year to year. This will require further refinement of the famine early warning systems already in place, to incorporate vulnerability to economic factors as well as to drought.

Likely benchmarks will be:

- indicators of child malnutrition;
- estimated costs of minimum diet compared to incomes, based upon consumer price indices; and
- household incomes or expenditures.

Target 4-4

Increased agricultural production and utilization

Chronic food insecurity can only be remedied in the long run through broad-based economic growth which provides people with enough income to obtain sufficient food to be healthy. Thus growth, rather than agricultural production per se, is the key long-term factor. In the short to medium term, however, increased production and utilization of local foodgrains is likely to be essential to improve peoples' access to adequate supplies of food as economic restructuring for long-term growth takes place.

Lessons from Experience

It has been well-established over the last fifteen years that policies focused on increasing domestic agricultural production for the sole purpose of attaining food self-sufficiency are costly and, in many cases, unviable. For example, families in Rwanda may most efficiently meet their calorie needs by producing more coffee for export rather than by cultivating beans for home consumption. However, increasing food production is often an important element of improved food security — both directly (providing more food to producing households and local markets) and indirectly (providing income and wage labor opportunities to both producing and non-producing households).

The interventions which can result in such increased food production are relatively well-known and tested: an incentive, market-based pricing policy (or, at least, a policy environment which does not pose disincentives to food production); efficient markets for production inputs as well as outputs; focused extension efforts where new technologies can make a difference; farmer organizations to increase the flow of knowledge as well as access to credit supplies; and improved infrastructure such as farm-to-market roads. Which of these interventions or combination of interventions is the most cost-effective must be decided on a case-by-case basis.

One area where more information is needed is the effect of storage and processing on food security. Recent experience suggests that improved storage either on-farm or in market intermediaries' warehouses helps not only to even out intra-year and inter-year supply, but can also increase the amount available by ten percent or more if improved storage technologies are used. Evidence on the impact of food processing technologies is less clear, but suggests that more coarse grains (sorghum and millet) and higher-yielding maize would be used if processing capacity were cheaply and widely available. This draws attention to the role of industrial as well as agricultural policy in improving food security, to the importance of processing as well as production technology research, and to the importance of reading market signals to determine what levels of investment in storage and processing technologies are appropriate.

A.I.D. Program Directions

Food security policies, particularly with regard to production and utilization of local food commodities, need to be more firmly based on empirical information. In gathering this information, it is important to pay attention to the need both to train Africans in the methods of policy analysis and to create a demand for such analysis.

Negotiation of self-help measures in P.L. 480 agreements provides opportunities to understand and influence recipient governments' priorities in food security. The continuation of the Cooperative Agreement with Michigan State University on Food Security in Africa will provide an additional means for A.I.D. to improve its empirical knowledge on the impacts of alternative policies on local production, utilization, incomes, jobs, and consumption. We also expect this Cooperative Agreement to support the policy dialogue on food security more broadly and to inform the larger decisions being made regarding the restructuring of the agricultural sector in many cases.

In addition, the Bureau will continue to study the consumption patterns and existing African household strategies for coping with food shortages. This information will be used to ensure that household-level food security as well as national production and income goals are adequately considered. Some policy changes that might result from this focus are: (1) the incorporation of inter-year and intra-year yield stability concepts into programs of agricultural technology development; (2) diversification of production systems to reduce risks of shortfalls and increase capacity to cope when they occur; and (3) protection of wild crops which provide a buffer during poor production years.

While many of these initiatives have already been noted elsewhere in this paper, the current status of food insecurity in the region demands that the need to alleviate hunger in the short term be recognized.

Benchmarks

A.I.D. will monitor the following benchmarks with respect to food security:

- agricultural production;
- diversity of food and nonfood crops produced;
- availability of agricultural technologies which explicitly address utilization considerations;
- availability of agricultural technologies which address stability of yield, particularly in drought conditions; and
- level of chronic malnutrition.

IV. A.I.D.'s Management Objectives in Africa

A.I.D. as an organization has been mandated under the DFA to seek out new ways to improve the coherence and effectiveness of U.S. assistance to the region in renewing economic growth which is broad-based, market-oriented, and sustainable. The management innovations already launched will be continued. To focus more clearly on accomplishing the strategic objectives and targets laid out in this Action Plan, however, additional changes in the way A.I.D. does business are needed.

A Task Force has begun work to surface and debate major long-term modifications to streamline policy and program management.

In the immediate FY 89/FY 90 period, the Africa Bureau will aim to:

- use the flexibility of the DFA to the maximum extent by concentrating resources in programs which are performing well;
- tie routine management actions (budgeting, personnel) more closely to DFA policy and program priorities; and
- put A.I.D.'s resources to work in collaboration with those of other donors, both U.S. and African private voluntary organizations, and the U.S. and international business community in order to expand their impact.

A. *Concentrating resources in programs which are performing well*

This management objective requires us to focus on:

- the development of program and project/non-project vehicles which permit more flexibility for shifting funds;
- development and implementation of performance indicators which can be applied at the country and country program levels as well as for project/non-project assistance;
- possible modifications of documentation requirements to facilitate both planning for and assessment of programs, projects, and non-project

assistance without increasing staff workloads; and

- searching for means to bring food aid programming cycles and approaches into better alignment with those of the DFA and ESF.

B. Tying routine management actions to DFA policy and program priorities

For FY 89/90, this management objective implies that A.I.D. will:

- seek to secure and use multiyear budget authority;
- explore the feasibility of simplifying contracting procedures to facilitate program management and free up staff time for substantive project management;
- accelerate actions to computerize routine processes (budgeting, program information submissions, etc.), increasing both timeliness and utility of the information for decision-making; and
- examine staffing procedures to assure that qualified staff are assigned where their particular skills are needed.

C. Put A.I.D.'s resources to work with others' resources

The impact of A.I.D.'s financial and human resources in Africa will be expanded by:

- pursuing co-financing arrangements with other donors, bilateral (e.g., the Japanese) as well as multilateral, and fully contributing to donor dialogues at the country level, particularly on key issues related to the strategic objectives of the DFA;
- strengthening the collaboration with PVOs (African as well as U.S.) by undertaking more joint programming at the country level, pilot activities in new areas (e.g., natural resource management), and an enhanced liaison and support effort at the Bureau level;
- creatively and aggressively implementing the debt-for-development provisions of the FY 89 legislation, thereby mobilizing more local resources for short-term programming; and
- exploring options for further involvement with the U.S. and international business community in private sector development.