POLICY REFORM PROGRAMS IN AFRICA: A PRELIMINARY ASSESSMENT OF IMPACTS

by

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PREFACE

This study was prepared by the Office of Development Planning in response to a request from the senior management of the Africa Bureau. The purpose of the request was to improve A.I.D.'s knowledge regarding the impacts on economic growth and equity of policy reform programs in Africa. This study is the culmination of Phase I of the Office of Development Planning's Policy Reform Impact Assessment activities. It is based primarily on field studies in Mali, Somalia, and Zambia.

Each of the three country studies was prepared in the field during January 1987 by three member teams. Teams were comprised of 2 members provided under A.I.D.'s Macroeconomics Indefinite Quantity Contract with Robert R. Nathan Associates, Inc., Development Alternatives, Inc., and Boston University. The Bureau for Africa, Office of Development Planning provided the third member for each team. This, the fourth report, synthesizes the findings with respect to the impact of policy reform programs in Africa.

Under Phase II, analytical activities will continue to broaden and deepen A.I.D.'s knowledge of the impacts of policy reforms in Africa. These activities will continue in fiscal 1987 and 1988.

John A. Patterson,
Associate Assistant Administrator
Office of Development Planning
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ACKNOWLEDGEMENTS

The author is grateful to the many contributors to this report. Jerome Wolgin's editorial comments and additions were most valuable, as was Cindy Clapp-Wincek's role in reviewing this study and in co-coordinating Phase I of the Africa Bureau's Policy Reform Assessment activities. The significant assistance provided by John A. Patterson, Don Harrison, and E. Scott Thomas also is appreciated.

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EXECUTIVE SUMMARY

The economic performance of most African countries during the last three decades has been dismal. Poverty, hunger and disease remain all too prevalent. Standards of living and rates of economic growth lag behind those of developing countries in Asia and Latin America. Food production has failed to keep pace with population growth. A large number of African countries have been living beyond their own means. As a result, the quality and availability of government services are declining. For many countries, the burden of external debts has become overwhelming.

THE COSTS OF BAD POLICY

While there are numerous reasons for Africa's economic predicament, one reason stands out: misguided economic policies. For many African governments, reforming bad policies is the most promising economic growth and development strategy for the years ahead.

Those countries which have done relatively well since independence have had policies which facilitated broad-based investment and production, and permitted a balance between aggregate supply and demand. In Cameroon, Ivory Coast, Malawi and Rwanda, conservative fiscal policies and an absence of restrictive agricultural policies contributed to stronger rates of growth with slower debt accumulation than in most African countries.

In contrast, too many African economies could be characterized by substantial state intervention and a bias in favor of urban sector growth. After independence, many countries embraced variations of either African or "Scientific" Socialism. A common development strategy was to promote industrial development at the expense of rural producers. For many governments, policies favoring urban consumers were seen as political necessities.

These policies had four profound effects:

First, they discouraged production, reduced new private savings and investment, and channelled whatever investment that did take place into areas which were relatively unproductive. Between 1965 and 1984 roughly $200 billion of foreign and African resources were invested in the oil-importing countries of Africa. On the average that investment had no impact on per capita incomes.

Second, they shifted income from low income groups (mostly small farmers) to upper income groups (politicians, government employees and other workers in the formal industrial and service sector). Mechanisms for the transfer of income from rural to urban populations included implicit taxes on agriculture (often in the range of of 50 to 90 percent); food subsidies; and, urban investment, for instance in hospitals and schools, while rural services were being neglected.

Third, they led to stagnation in employment. While Africa has not yet seen a significant rural, landless class, population is growing rapidly and pressure is beginning to mount on arable land. Bad policies tended to waste capital and led to much higher levels of capital intensity, and thus much lower levels of employment generation than should have occurred.

Fourth, these policies engendered corruption and moral decay. The more control government has on economic life, the more it uses administrative means to ration resources rather than the market, the greater the opportunity for extortion and bribery and corruption of all kinds. The greatest cost of corruption is cynicism and loss of faith in Government.

Since 1980, United States foreign assistance programs have placed increasing emphasis on supporting African governments in efforts to reform economic policies. Many World Bank and International Monetary Fund programs also address policy issues. Furthermore, there is an increasing recognition of the need for policy reform programs by African governments. In 1985, the Organization for African Unity adopted "Africa's Priority Program for Economic Recovery," endorsing a strategy of policy reform.

PURPOSE OF THIS STUDY

Africa is now beginning to accumulate sufficient experience with successfully implemented policy reform programs to permit a preliminary assessment of their impacts. The purpose of this study is to assess the impact on economic growth and development of donor- and IMF- supported policy reform programs in Sub-Saharan Africa during the 1980's. Emphasis will be placed on the distribution of the benefits and losses attributable to these programs.

There are a number of clear conclusions emerging from this assessment of policy reform programs in Africa. In summary:

IMPACTS IN THE AGRICULTURAL SECTOR

Farmers responded to changes in incentives. There is clear evidence that farmers responded to freer markets and price signals and made choices that maximized their welfare. Farmers adjusted to improved market signals by rechanneling their energies back into agriculture by expanding land and labor use, and using resources more efficiently-- altering the mix of inputs they use and diversifying crop production.

Reforms led to significant increases in food production. In the presence of adequate rainfall, donor-assisted policy reform programs were the dominant causes of increased food output in Somalia, Zambia, Zaire and Zimbabwe. Reform programs brought major shifts in relative prices, increasing returns to agriculture by as much as 100% in real terms. Not surprisingly, large changes in incentives had major impacts: in some cases acreages planted and marketed output have more than doubled.

The major beneficiaries were small farmers. Policy reforms increased the volumes of cereals marketed by small farmers-- overall, the amount of grain marketed by small farmers as a proportion of all grain marketed increased dramatically. As a result, small farmers' incomes increased, especially in Somalia, Zambia, and Zimbabwe.

Agricultural policy reforms had a quick impact on output and income. In general, the evidence supports the view that the quickest way to lift African agriculture from its current stagnation is to support reforms in the producer's incentive structure. In contrast few programs to develop and transfer technology or provide credit can hope to reach all farmers in a decade, much less in a single year.

Policy reforms had the greatest impact where other constraints were less binding. In Zambia and Somalia, where land is plentiful, it was relatively easy to increase production extensively in response to changing prices. In Zimbabwe, changes in prices were accompanied by improved marketing, better input supplies and access to credit. In Zaire, increased production was hampered by a debilitated transport system. In Mali, farmers' risk aversion and tight credit reduced the impact in agriculture.

Policy reforms promoted private sector development in rural areas. The level and efficiency of private sector trade in farm products has increased. As rural incomes improve, consumer goods are becoming more widely available outside the major cities.

IMPACTS-- ECONOMY-WIDE

Distributional equity has improved: these countries reduced the urban bias of of their economic systems. Winners have been small farmers and workers in the non-formal sectors. Losers have been urban dwellers with relatively high paying jobs such as government employees and other formal sector workers. Reforms affect consumers in different ways depending on their sources of income and patterns of expenditure. Reform measures such as producer price increases and market liberalization promoted income growth for farmers. By contrast, urban wage earners have suffered losses as their wage increases were lower than inflation rates. This improvement in distributional equity is consistent with the United States' fundamental goals in supporting policy reforms.

Market structure and spending reforms helped African governments in their efforts to cut budget deficits. By reducing the role of public enterprises, improving performance and reducing employment, the public sector is cutting costs. But, producer price supports and consumer subsidies continue to burden the public sector. These are policies that are politically difficult to reform.

Reform programs had favorable effects on balance of payments. Reforms in the agricultural sector helped countries such as Somalia and Zambia to develop new export markets. Devaluations had the intended effects of increasing exports and reducing imports. There is evidence of increasing reliance on domestically produced agricultural inputs. Scarce foreign exchange appears to be allocated more efficiently, contributing to more efficient input use in agriculture and increases in industrial output.

Macroeconomic progress has been slow. Despite the positive effects of these reform programs, every country in this study, except Somalia, has seen the negative effects of bad weather, falling export prices, and debt service overwhelm the positive effects of increased efficiency and investment.

IMPLEMENTATION

Policy reform implementation failures can defeat the best programs. Zambia's program is the one most affected by implementation failures, but the positive impact of reforms in Mali and Zaire have been reduced by mistakes in implementation.

Price interventions are extremely difficult to manage. Many reform programs linked liberalization with a series of support prices. In general, supporting high prices in the face of supply gluts is too much of a drain on government resources. Both Somalia and Mali were forced to suspend price support activities. Zimbabwe has been forced to reduce its support prices in the face of enormous grain stocks which it cannot afford to maintain. African governments do not have the resources to follow the types of farm programs pursued by Western countries.

Reform programs are underfunded. There is insufficient donor assistance to keep import levels from falling and inflation from increasing. The result is even greater pressure on urban incomes and purchasing power and increasing political disaffection.

ROLE OF DONORS

Even without reform programs, structural adjustment would take place. Ghana and Guinea are examples of African countries which didn't undertake reforms until the effects of bad policies led to de facto adjustment. Urban incomes fell, urban workers returned to the countryside (in Ghana) or emigrated (in Guinea). Investment declined, factories closed, infrastructure disintegrated. Even worse, education and health systems deteriorated. An entire generation in Guinea is virtually uneducated. These experiences are the alternative to a managed adjustment program.

External assistance has been critical to the adoption of policy reforms by African governments. Through policy dialogue and technical assistance, the United States, IMF, the World Bank and other donors have helped African countries to recognize and articulate needed reforms. Financial assistance has cushioned the negative impacts of some of the adjustment process.

A.I.D.'s role has been both catalytic and supportive. Food aid to Mali, Somalia and Zambia have helped to avert food shortages during the reform process. Counterpart funds generated through sales of food aid have helped to relieve financial pressures on governments during transition periods. Commodity Import Programs provided balance of payments support, supplied critical inputs, and also generated local currencies for further developmental uses. Cash grants also helped African countries by reducing balance of payments pressures while reforms were taking place.

EMPHASIS ON POLICY REFORM SHOULD CONTINUE

Policy reforms are not the only answer to Africa's economic problems, but they are an important part of the answer. Judicious support of policy reform programs should be continued by the United States in support of adjustment, growth and development objectives. Policy reform programs should be balanced with programs and projects to address other economic constraints.

Policy issues also stretch beyond the purview of African governments. Critical issues regarding African debt and the future of the world trade regime are international issues in which African countries have a small voice but a large stake. These issues merit attention in the formulation of U.S. economic policies.

Policy reform programs involve fundamental and often difficult actions on the part of African governments. It will take time for many reforms to be implemented and even longer until their full effects may be evaluated. It is important that the United States and other donors maintain their commitments to reform programs, if these programs are to succeed.

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I. INTRODUCTION

The mere mention of Africa evokes images of poverty, hunger, disease and political instability. During the 1960's, while the industrialized world prospered, much of Africa was struggling for independence. Many new countries were born, most with a colonial legacy of widespread poverty, weak transportation and communications links, and a population ill-equiped to overcome the obstacles posed by nature and by a changing global economy.

The 1970's brought Africa's natural and economic limitations to the fore. Early in the decade, the Sahel experienced a devastating drought. The rapid rise in oil prices that shocked the developed countries hit African countries even harder. For most, the costs of imports increased while the world prices for their export commodities fell. In their efforts to sustain standards of living, African governments accumulated large foreign debts. Africa's position in world markets continued to deteriorate. By 1980, most Africans were little or no better off economically than in the early 1960's.

A central cause for the economic stagnation most African economies have experienced has been the adoption of misguided economic policies. These policies discouraged people from working harder, from taking risks and from using their savings for productive investments, while at the same time perpetuating and expanding the inefficient use of resources by the public sector. Although economic policies differ from country to country, the following policies were commonplace:

- Agricultural producer prices were controlled at levels so low that most small farmers lacked incentives to produce surpluses for the market. In Ghana, cocoa farmers were taxed at a marginal rate of 90%.

- Private movement and trade of food crops was illegal. Private traders were forced to operate illicitly. In countries such as Mali and Somalia, authorities seized private grain supplies.

- Governments controlled supplies of farm inputs. In many cases, inputs were unavailable while, in others, heavy subsidization of fertilizer led to overuse. In Zambia, because of price distortions, commercial farmers spent more than a dollar of foreign exchange on fertilizer for every dollar's worth of food they produced.

- African governments followed policies to assure cheap food supplies for their urban populations. Consumer food subsidies were costly, absorbing a large part of public sector expenditures. In order to keep consumer prices low, producer prices were kept down.

- Overvalued exchange rates and import restrictions were used to help keep the cost of public sector imports down and provide government control of imports. But these exchange rates could not be maintained and critical shortages of agricultural and manufacturing inputs occurred. In order to keep their economies going, governments plunged deeper into debt.

- Poor investment and management decisions added to the debt problem. Many capital investments are not paying for themselves. Often, small farmers were saddled with the capital costs of agricultural development projects, such as irrigation schemes, even when their sales revenues barely covered the current costs of production.

- Governments consistently ran large deficits. Some followed policies guaranteeing civil service jobs to all school leavers. The bloated civil service rolls, coupled with consumer and producer subsidies, as well as subsidies to inefficient parastatal organizations, drained resources from important goverment services such as education, health and road maintenance. Deficits led to inflation and further distortions in foreign exchange regimes.

Since 1980, United States foreign assistance programs have placed increasing emphasis on supporting African governments in efforts to reform economic policies. This coincides with a rise in World Bank-supported policy reform programs, and with increased policy conditionality in programs of other donors, in debt rescheduling agreements and in International Monetary Fund (IMF) programs. There is also an increasing recognition of the need for policy reform programs by African governments. In 1985, the Organization for African Unity adopted "Africa's Priority Program for Economic Recovery," endorsing a strategy of policy reform.

PURPOSE OF THIS STUDY

Africa is now beginning to accumulate sufficient experience with successfully implemented policy reform programs to permit a preliminary assessment of their impacts. The purpose of this study is to assess the impact on economic growth and development of donor- and IMF- supported policy reform programs in Sub-Saharan Africa during the 1980's. Emphasis will be placed on the distribution of the benefits and losses attributable to these programs. Reform programs involve substantial changes in the rules under which economies operate and in the roles governments play in their economies. It takes time for the full effects of these reforms to develop, and the reforms are implemented against a backdrop of changing world prices, changing weather patterns, and other uncontrollable variables which also have substantial impacts on incomes, output and welfare. For these reasons, it is difficult to disentangle the particular impact of policy reforms.[1]

This study is a component of A.I.D.'s ongoing effort to monitor and evaluate policy reform activities. Most of the information for this study comes from three impact assessments that A.I.D. conducted in January, 1987 in Mali, Somalia and Zambia. To a lesser extent this study also draws on evaluations of A.I.D.'s Commodity Import Programs (CIPs) in Zaire and Zimbabwe.[2]

The report is organized as follows: After discussing the economic and institutional context for policy reform in Section II, Section III will provide case examples of policy reform programs and impacts. Conclusions will be synthesized in Section IV.

II. THE CASE FOR POLICY REFORM

AFRICA'S ECONOMIC PREDICAMENT

The economic performance of most African countries since independence in the 1960's and 1970's, has been dismal.[3] Poverty, hunger and disease remain all too prevalent. Standards of living and rates of economic growth lag behind those of developing countries in Asia and Latin America. Table I demonstrates the degree of stagnation.

Governments face deepening fiscal crises. Government budget deficits averaged 6.3 percent of GDP between 1980 and 1984. As a result, the quality and availability of government services is declining. For instance, there are fewer qualified teachers and fewer textbooks than a decade ago. Governments are unable to maintain existing infrastructure; past investments in roads, railways and irrigation systems are being washed away and overgrown.

Africans face a harsh economic reality. Most live in poverty. In 1985, the average per capita income in 39 countries with a combined population of 410 million was only $410; 25 of these countries and probably 60 percent of the region's people had incomes below that. The infant mortality rate, at 120 per 1000 live births, is higher than in other regions, while life expectancy, 50 years, is lower. Those that survive face a life of hunger: on average, Africans consume only 90 percent of their calorie requirements; many consume much less.[4]

African countries are living beyond their means. Debt has been increasing at an annual rate of 24.2% since 1970. By 1984,

TABLE I
AFRICAN ECONOMIC PERFORMANCE[a]

	African Developing Countries	All Other Developing Countries
Growth of Real GNP per capita (1965-84)	1.2%	77.6%
Life Expectancy at Birth (1983)	49.4yrs	59.6yrs
Agricultural Growth (1973-83)	17.2%	31.8%
Investment as % of GDP (1983)	16.8%	25.9%
Growth in Exports (1973-83)	-25.8%	11.2%
Growth in Imports (1973-83)	-18.9%	18.7%
Population Growth (1973-83)	32.8%	22.1%

[a] Excluding oil-exporting countries: Nigeria, Cameroon, Congo, Gabon and Angola

Source: World Bank, Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90, 1986.

each one of Africa's 410 million people owed foreigners about $195, or about as much as they earned in six months of toil. (By contrast, while U.S. debt also equaled about half of GDP, over 90% of it was domestic). Debt service is so high that 50 cents out of each dollar that African economies obtain through borrowing, debt relief, or foreign aid goes for payments on past debts.[5]

Agriculture is the major source of livelihood in Africa. Yet, food production failed to keep pace with population growth. Per capita food production declined between the early 1960's and the mid-1980's.[6] Small farmers (most of whom are women) use simple tools like hoes and machetes, with limited recourse to fertilizers and other modern inputs. In many countries, poor soils, and limited water resources constrain agricultural growth, and much of the continent is subject to recurrent drought. Development and adoption of new technologies, improved seeds, fertilizers and mechanization have been slow.

Population growth in Africa is the fastest in the world. Over half of the people living on the continent are under the age of fifteen. Every year millions of young men and women leave schools searching for jobs that are not there. Stagnation in economic growth has meant stagnation in employment growth. More and more people migrate to the urban areas where they exist in the gray areas of the economy, hawking newspapers, engaging in prostitution, and frequently resorting to petty theft and sometimes violent crime. The growth of urban unemployment has created a serious and destabilizing social environment in most large African cities.

THE COSTS OF BAD POLICY

While one could cite numerous reasons for Africa's economic plight, misguided economic policy stands out as the central cause.[4] Those countries which have done relatively well since independence have had policies which facilitated resource mobilization and permitted a balance between aggregate supply and demand. In Cameroon, Ivory Coast, Malawi and Rwanda, conservative fiscal policies and an absence of restrictive agricultural policies contributed to stronger rates of growth with slower debt accumulation than in most African countries.

In contrast, too many African economies could be characterized by substantial state intervention and a bias in favor of urban sector growth. After independence, many countries embraced variations of either African or "Scientific" Socialism. A common development strategy was to promote industrial development at the expense of rural producers. For many governments, policies favoring urban consumers were seen as political necessities.

Bad policies included:

- State-run production in both agriculture and industry;
- State control of agricultural marketing;
- Price controls, especially low official farmgate prices;
- High minimum wages in the formal sector;
- Interest rate controls;
- Concentration of investments in the urban economy and neglect of the rural economy;
- Overvalued exchange rates and foreign exchange controls;
- Tariffs and other trade restrictions that encouraged investments in industries which were not competitive;
- Barriers to private investment, including limitations on profit repatriation, and regulations limiting entry into particular sectors;
- Unfair and inefficient tax laws;
- Expansion of government expenditures through consumer subsidies, support of inefficient parastatals, and policies of hiring all school leavers;
- Excessive expenditures on social services for the elite (curative hospitals and universities) at the expense of services for the masses (clinics and primary schools);
- Financing of spending through foreign borrowing or monetary expansion.

These policies had four profound effects:

First, they discouraged production, reduced new private investment, reduced private saving, and channelled what investment took place into areas which were relatively unproductive. Between 1965 and 1984 roughly $200 billion of foreign and African resources were invested in the oil-importing countries of Africa. On the average that investment had no impact on per capita incomes.

Second, they shifted income from low income groups (mostly smallfarmers) to upper income groups (politicians, government employees and other formal sector workers), through such mechanisms as implicit taxes on agriculture of 50 to 90%, food subsidies, investment in urban hospitals and schools and neglect of rural clinics, etc. On the average, the 77% of the labor force who work in agriculture in Africa earn 38% of the income, and the 23% of the people who work in non-agriculture earn 62% of the income (five and a half times what the farmer earns).[8]

Third, they led to stagnation in employment. Africa's labor force is growing at three and a half million workers per year. While Africa has not yet seen a significant rural landless class, pressure is beginning to mount on arable land. Bad policies tended to waste capital and lead to much higher levels of capital intensity, and thus much lower levels of employment generation than should have occurred.

Fourth, these policies engendered corruption and moral decay. The more control government has on economic life, the more it uses administrative means to ration resources rather than the market, the greater the opportunity for extortion and bribery and corruption of all kinds. The greatest cost of corruption is cynicism and loss of faith in Government.

THE PUSH FOR POLICY REFORM

For most of the 1970s bad policies were obscured by relatively buoyant commodity prices. World inflation fueled by petrodollars meant capital was readily available at low rates of real interest. When commodity prices began to weaken in the wake of the second oil shock, African countries resorted to borrowing. The deflationary environment of the early 80s exposed their weak economic structures to a firestorm of financial troubles.

The intellectual centerpiece of the policy reform initiative in Africa was the 1981 World Bank report "Accelerated Development in Sub-Saharan Africa," (The Berg Report).[9] But even prior to its publication, A.I.D., under the aegis of its new Administrator, M. Peter McPherson, had established "policy dialogue" as one of the four pillars of its Blueprint for

Development. The new push by the donors, coupled with the drastic financial imbalances which arose in 1979 and after, led to a much broader acceptance of the need for policy reform in Africa.

This acceptance has now been clearly enunciated by the African Governments themselves in such documents as the Lagos Plan of Action and the OAU paper, "Africa's Priority Programme for Economic Recovery, 1986-1990," presented before the special 1986 session of the United Nations General Assembly.[10]

Since 1981 a substantial number of policy reform initiatives have been undertaken by African Governments.[11] Countries which were once wedded to "dirigiste" philosophies of state control have, through choice or necessity, begun to open up opportunities for private initiative. Exchange rates are being readjusted, prices decontrolled, tariffs reformed. The breadth and depth of these efforts is impressive. The following section looks closely at five of these efforts.

III. POLICY REFORMS AND IMPACTS IN FIVE AFRICAN COUNTRIES

Experience with policy reforms varies widely across African countries. In this section, findings from three recent studies in Zambia, Somalia and Mali, assessing the impacts of policy reform programs are highlighted. These studies were conducted by the Africa Bureau of A.I.D. and are A.I.D.'s first comprehensive examination of the impact of policy reform in Africa. In addition, evaluations of A.I.D. programs in Zaire and Zimbabwe discuss the impacts of A.I.D. supported policy reform on income and output. These two evaluations are somewhat less comprehensive than the three special studies.

ZAMBIA'S EXTERNAL AND AGRICULTURAL SECTOR REFORMS[12]

Background

Zambia's economy is characterized by:

Heavy Dependence on Copper Strong revenues due to high copper prices in the late 1960's and early 1970's were the engine for growth of the Zambian economy. Copper prices declined sharply in the mid-1970's and have remained low.

An Urban/Rural Dualism The proportion of Zambia's population living in urban areas, 47 percent, is higher than in any other African country. The urban sector is dominated by publicly owned, capital-intensive, high-wage activities, most importantly mining. There is also a lower-income urban informal sector of significant size.

Dualism within the Rural Sector The Zambian agricultural sector can be divided into two distinct sub-sectors. On the one hand, there are large state-owned and commercial farms which produce mainly cereals, beef, poultry and tobacco. Many of the commercial farms are owned by white Zambians and expatriates, although the number of black Zambian commercial farmers is increasing. On the other hand, there are black Zambian owned smaller farms producing mainly staple food crops. Among the smaller farmers is a class of "emergent" farmers who are expanding the scale of their production through the adoption of improved agricultural practices.

Stagnation and Decline Drawing on the revenues from copper exports while prices were high, the government of Zambia established a complex system of state run enterprises and administered prices. Agricultural markets were controlled by state-owned monopolies and all private sector activities were circumscribed. Over time, Zambia's large public sector proved to be inefficient. Patterns of pricing and investment were biased in favor of the modern sector and against lower-income urban and rural populations.

Zambia did not adjust properly to falling copper prices. Rather than reduce expenditures when foreign exchange earnings fell, the country increased its external borrowing. Debts mounted without commensurate increases in investment and economic growth. Agricultural development was largely ignored.

By 1982, real per capita incomes were 20 percent lower than in 1974. Fiscal deficits grew to 18 percent of GDP. Zambia found that it could no longer meet its debt service obligations. With few options left, Zambia embarked upon a program of policy reforms. The most important reforms are those in the exchange regime, and price policy and market structure reforms in the agricultural sector.[13]

External Sector Reforms

In response to chronic balance of payments deficits, Zambia undertook an adjustment program to reduce imports and increase exports. In 1983, Zambia devalued by 20 percent and instituted a managed float of the kwacha. Further devaluation occurred in 1984. One of Africa's most radical economic reforms in recent years was begun in October 1985 when Zambia instituted a weekly foreign exchange auction. This led to a 61 percent depreciation of the kwacha in only three months (Foreign goods that previously cost one kwacha now cost 2.5 kwacha). At the same time, the complex system of import licensing was abolished.

Agricultural Sector Reforms

Through reforms in agricultural price policies, Zambia acted to increase incentives for agricultural producers and to increase the efficiency of resource use.

Corn Prices The most important crop in Zambia, and the staple of the Zambian diet, is corn. Since the mid-70's the procurement, transportation, processing and sales of corn and corn meal were subject to the monopoly control of the state marketing agency, NAMBOARD. Beginning in 1979, new emphasis was placed on raising official producer prices for corn. Between 1981/82 and 1985/86, producer prices increased, after adjusting for inflation, by 185 percent.

Corn Marketing The Zambian Government has been attempting to improve its corn marketing system which is now burdened by inefficiency, excessive costs, lack of liquidity, and plain incompetence. As a result, farmers are paid late and stocks sit on loading docks, subject to pests and mildew. A series of reforms were introduced with the intention of reducing the costs of NAMBOARD's operations and increasing the efficiency of corn markets. In 1981, the intra-provincial corn trading functions of NAMBOARD were transferred to provincial cooperatives (some of which are fundamentally government controlled). In 1985, NAMBOARD's marketing monopoly was restored, but provincial cooperatives continued to act as marketing agents. In 1986, corn trade was decontrolled, and, in theory at least, NAMBOARD became a buyer of last resort, supporting minimum producer prices. In fact, private trading remains stifled because of subsidies and considerable uncertainty regarding the Government's true intentions.

Consumer Prices While producer prices have been increased substantially, the Government of Zambia has been reluctant to increase consumer corn meal prices as rapidly. As a result, financing corn meal subsidies increasingly has presented a problem to the Government.

When corn trade was liberalized in 1986, prices for breakfast meal, a higher quality form of processed corn, were decontrolled. In addition, subsidies were reduced and redirected from NAMBOARD and provincial cooperatives to millers, thus for the first time, setting up the conditions for private trade in corn.

Other Crops Official producer prices for many crops were increased progressively beginning in 1980. In December of 1982, retail prices of all goods, except corn, wheat flour, and candles, were decontrolled. In 1984, wheat prices were deregulated. With this decontrol, official producer prices became minimum support prices. Decontrol also permitted market forces to adjust prices to reflect differential transportation costs.

Fertilizer Historically, fertilizer supplies were controlled by the government and heavily subsidized. These prices were increased substantially after 1983. This allowed the public sector to reduce its outlays for subsidies. At the same time, higher input prices were partially offset by higher crop prices.

Impacts

Policy reforms made a strong and favorable contribution to Zambia's economic adjustment, growth and development since 1982. Aggregate demand was brought under control, agricultural output was increased and rural/urban disparities were reduced. Lower real incomes in the mining and public sector were the necessary costs of the structural adjustment engendered by the reform process. Zambia could no longer afford to accumulate debt or postpone investments in order to maintain consumption in the urban, formal sector. Policy reforms facilitated increases in output and efficiency in agriculture, manufacturing and commerce. Agricultural incomes increased. Small farmers, especially are better off. True gains were made in distributional equity.

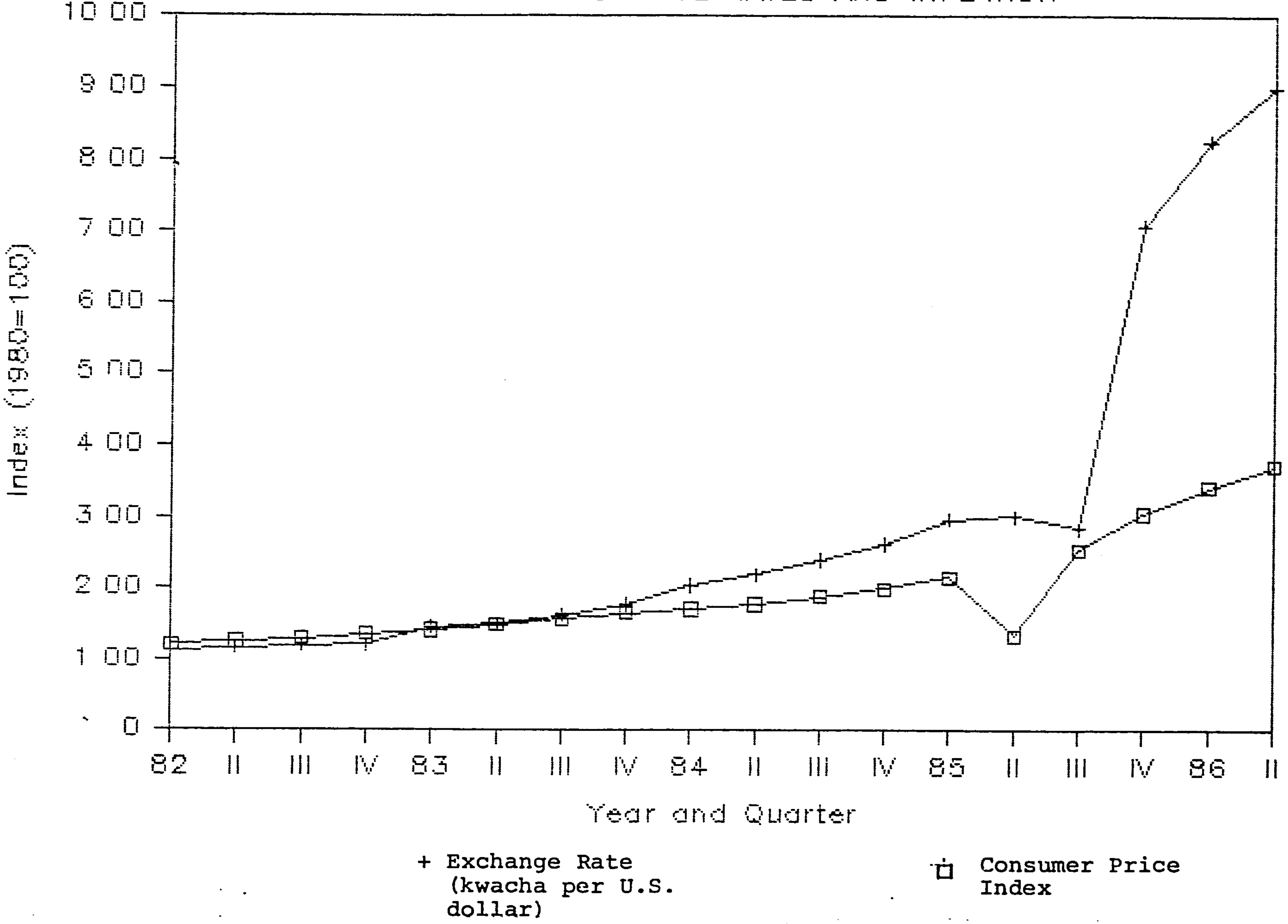
Impacts of Reforms in Trade and Exchange Rate Policy
Devaluation had the expected effects. Trade deficits and mounting debt reflected unsustainable import levels and the virtual absence of export production outside the mining sector. Devaluation increased the price of imports and made non-traditional export production more profitable. On the down side, the devaluation contributed to a substantial increase in inflation (see Figure I), although rising import prices have had more of an impact on urban consumers than on rural consumers, because they rely more on traded goods Thus, much of the burden of adjustment was placed on those most able to withstand it. It should be noted that devaluation only released inflationary pressures which already existed but had manifested themselves through shortages and black markets.

Nevertheless, the positive impacts are dramatic:

- Between 1984 and 1985 value added in agriculture grew by 9.2% and value added in manufacturing grew by 8.9%.
- The volume of non-traditional horticultural exports has more than doubled since September, 1985. ZAMHORT, a parastatal active in the fruit and vegetable trade has seen its export volume increase from 16 metric tons in 1984-85 to 438 metric tons in 1985-86.
- Foreign exchange availabilities allowed the rehabilitation of the sugar plant in Mazabuka, and the development of sugar exports to Zaire, Burundi, Tanzania, and Rwanda.
- Ox-plow production is now 22% lower in cost than mechanized farming, and, as a result, oxen use is rising.
- Diversification into soybeans and sunflower is taking place, permitting domestic production of animal feeds to replace imported fish meal.

FIGURE I

ZAMBIA: EXCHANGE RATES AND INFLATION



- Zambia produced sufficient maize and wheat to reduce grain imports almost to zero.
- According to a World Bank survey, there has been a marked increase in capacity utilization in the manufacturing sector.

Impact of Agricultural Policy Reforms Both increases in producer prices and increases in fertilizer prices had major impacts on output, incomes and efficiency in the agricultural sector. The greatest impact came from increased producer prices, which, together with favorable weather, led to a substantial increase in output. The impact of fertilizer price increases was to reduce the excessive use of fertilizers in crop production and induce a shift to more intensive use of land and labor to compensate for lower fertilizer use rates. These sectoral reforms, coupled with the foreign exchange availability that arose because of the macroeconomic reforms, made production and marketing much more profitable. For the first time since the 1970's consumer goods became widely available in rural areas. This created a greater demand for cash incomes, leading small farmers to commercialize more of their output. There is evidence that marketing of deregulated crops grew faster than marketing of regulated crops. Thus, farmers expanded and diversified output in response to price signals. Specifically:

- Between 1983/84 and 1985/86, marketed supplies of corn increased by 65%.
- The share of corn marketed by small farmers increased from 20 percent to 60 percent.
- Surveys indicate substantial increases in smallholder acreages planted to maize (in one area the percentage of smallholders who tilled more than three hectares increased from 23% in 1981 to 53% in 1986).
- A survey in one district showed smallholders planting intentions had increased by 30% for 1987 over 1986.
- The Zambia Seed Company ran out of improved seed in January, 1986 (sales were 20% above expectations), with most of the demand coming from smallholders.
- The combination of increased prices and increased marketed output, meant that the gross cash income of corn producers was increased by 370% between 1981 and 1985.[14]
- Marketed corn output in 1986 is estimated to be 10.5 million bags compared to 7 million in 1985.
- For the first time since 1978 domestic corn supply exceeded corn demand.

Role of U.S. Assistance

External financing and technical assistance played a significant role in Zambia's recognition and acceptance of needed policy reforms. The IMF, World Bank, and A.I.D. took the lead in supporting policy reforms. A.I.D.'s support which was substantial was provided through advice and dialogue, and through a series of programs:

- An Economic Support Fund (ESF)- Cash Grant, the Zambia Auction Program Support (ZAPS), provided balance of payments support to promote exchange reforms.
- The African Economic Policy Reform Program (AEPRP) in Zambia, known as the Zambia Multi-Channel Agricultural Marketing Program (ZAMCAM) supported agricultural marketing liberalization.
- P.L. 480, Title I food aid programs and a series of Commodity Import Programs (CIPs) also supported agricultural sector reforms.
- The Zambia Agricultural Training, Planning and Institutional Development Project (ZATPID) supported the development of policy analysis capabilities and helped pave the way for later reforms.

Assessment

The Zambia reform program is a success, but it also has the makings of failure. The success is marked by the responsiveness of Zambian farmers, workers and entrepeneurs to market signals. Production and income are up in those sectors which have been heretofore neglected. But the positive effects may be overwhelmed by the failure of the reforms to bring about a macroeconomic turn-around in the short-run (although this was never expected); the failure of the donors to provide sufficient funding to make the costs of reform palatable; and, the wavering of Zambia's leadership with respect to pushing the reform program in the face of strong political opposition.

There are two major problems that continue to plague Zambia's reform efforts. First is an inability to implement policy changes in a consistent and effective manner. As a result of problems of timing, of unclear directions from the political leadership, and a lack of appreciation of the complexities of implementation, many reforms had much greater political costs than they might have had. As a result the Zambian leadership has been forced to back and fill in an attempt to reduce the adverse effects of the reform program.

For example, poor management and implementation of corn price and marketing reforms caused considerable confusion. Hoarding was caused by the fact that everyone knew of the impending price rise before it was announced. At the same time millers were being asked to buy grain at the new higher prices, but sell meal at the old low prices. Not surprisingly many mills refused to buy grain or process it until the situation could be clarified. Shortages of roller meal, a less preferred form of corn, materialized. At the same time, prices for breakfast meal increased by 120 percent. The price increases coupled with the shortages led to riots in which 15 people were killed. As a result, Zambia has rolled back some of its reform measures (rescinding price increases and nationalizing grain milling) and future corn marketing policies are uncertain.

Second, the program is underfunded. Continuing weakness in copper prices coupled with the substantial debt burden has reduced the foreign exchange available for domestic production and led to a much greater devaluation of the kwacha than the economy could accept without substantial inflationary pressures. All the positive changes at the sectoral level have not yet led to major macroeconomic improvements. The economy is like a huge dreadnought, so dependent on copper (the price of which continues to languish) and so saddled with debt, that the reforms have so far only shifted the rudder. The economy will continue stagnate for some time to come, until the rudder's shift permits the ponderous economy to move in a new direction.

Time and perseverance are lacking. The costs of the program are highly visible and concentrated among the politically active; the benefits are more disbursed and not as readily apparent. It remains to be seen whether the political structure is strong enough to sustain a program as risky as this one, and whether the donor community is able to stay the course.

AGRICULTURAL AND MACROECONOMIC REFORMS IN SOMALIA[15]

Background

Upon independence in 1960, Somalia adopted a democratic system of government and an economic system characterized as "economic liberalism." After the 1969 "October Revolution," a system of "scientific socialism" was embraced based on government control of all productive activities, marketing and international transactions. Nominal emphasis was placed on industrial development. Somalia received substantial support from the Soviet Union between 1969 and 1977. In 1975, Somalia suffered from a severe drought. In 1977, during Somalia's war with Ethiopia, Soviet support was cut off. These developments left Somalia with a severe fiscal and external payments crisis. Somalia turned to the West, but retained its socialist, statist and urban biased economic outlook until the early 1980's.

Somalia has few natural resources. Less than 15 percent of its land is arable and rainfall is sporadic at best, compounding difficulties in farming. Agriculture, which contributes 55 percent of GDP, is dominated by livestock production. The country's economic infrastructure is poorly developed. About one-third of the population are nomadic herders, one-third are farmers, and one-third live in urban areas. Irrigated farms produce bananas, citrus, some sesame and most of the corn, while rain-fed farms produce sorghum and some oilseeds.

Official transfers provide the bulk of Somalia's foreign exchange, followed in importance by workers' remittances and export revenues from livestock products and bananas. With a limited range of exports, the country is highly vulnerable to external shocks. Hence, Saudi Arabia's 1983 ban on livestock imports from Africa threw Somalia's economy into a tailspin, exacerbating its debt-servicing difficulties. Outstanding external public debt now exceeds GDP and the ratio of debt service payments to export revenues is approaching 100 percent.

Somalia adopted a stabilization program in early 1980 to restrain demand and stimulate output. This was broadened into an adjustment program beginning in mid-1981, with emphasis on stimulating economic growth, slowing inflation and reaching a sustainable balance of payments position. Since 1980, Somalia has introduced a wide range of policy reforms, liberalizing the economy to promote growth and development. Reforms affecting the external and agricultural sectors and private enterprises will be discussed below. Extensive reforms affecting public revenues and expenditures, public enterprises, the money supply and interest rates were also introduced.

<u>The Reform Program</u>

External Sector Reforms In order to promote balance of payments adjustment, Somalia instituted a series of reforms in its foreign exchange regime:

- The Somali shilling has undergone several devaluations. Through a series of adjustments, ranging from the establishment of a dual exchange rate system to unification to an auction the Somali shilling has depreciated by 64 percent between 1983 and 1986 (see Table II).

- A number of liberalization measures to increase repatriation of foreign exchange were introduced, including: a) allowing exporters to open external accounts; b) opening export accounts denominated in foreign currencies; and c) reducing surrender requirements for foreign exchange earned through exports, from 100 percent to 35 percent, in 1985. The surrender requirement was raised to 50 percent in 1986.

TABLE II
SOMALIA'S EXCHANGE RATES, 1983-86

(Somali Shillings per U.S. Dollar)

	Official Market	Commercial Bank Market	Free Market
1983:			
Jan. 1-8	15.21	n.a.	n.a.
Jan. 9-28	14.86	n.a.	n.a.
Jan. 29-Jul. 29	15.26	n.a.	n.a.
Jul. 30-Aug. 30	15.63	n.a.	n.a.
Aug. 31-Oct. 22	15.76	n.a.	n.a.
Oct. 23-Dec. 31	15.56	n.a.	n.a.
1984:			
Jan. 1-Sep. 14	17.38	n.a.	n.a.
Sep. 15-Dec. 1	26.00	n.a.	n.a.
1985:			
Jan.	36.00	78.05	88.98
Feb.	36.50	81.17	89.44
Mar.	37.00	81.98	91.39
Apr.	37.50	83.61	92.59
May.	37.50	83.61	92.59
Jun.	40.60	84.43	97.82
Jul.	40.60	84.43	101.54
Aug.	40.60	84.43	102.09
Sep.	40.60	84.43	100.70
Oct.	40.60	84.43	107.15
Nov.	40.60	84.43	110.49
Dec.	42.50	84.43	114.69
1986:			
Jan.	54.50	84.43	114.76
Feb.	54.50	84.43	122.90
Mar.	58.50	84.43	138.63
Apr.	62.50	84.43	148.13
May.	66.50	84.43	152.89
Jun.	70.50	84.43	153.95
Jul.	74.50	84.43	n.a

Source: IMF.

Agricultural Sector Reforms Within the agricultural sector, Somalia introduced market structure and price policy reforms affecting both inputs and outputs. The objectives of these reforms were to increase agricultural production and to increase efficiency through the promotion of private sector activity. Of special importance were:

o A de facto liberalization of cereals markets which began in 1981, when Somalia's grain trading monopoly, the Agricultural Development Corporation (ADC), was unable to cover domestic food shortages. The requirement that farmers sell their major staple products to the ADC was dropped in 1982. However, market liberalization did not occur in all locations at the same time; local authorities in some areas held on to old practices. In order to encourage the development of private sector grain trade, in 1984 the United States added the requirement that part of the Title I food aid be auctioned publicly.

o The Livestock Development Agency was abolished in April 1981; livestock trade is now conducted primarily by private traders. In addition, the public sector's monopolies on the marketing of fish and imported foodstuffs were abolished in 1981.

o The marketing structure for banana exports was transformed when the publicly owned National Banana Board entered into joint venture with an Italian trading company.

o Public subsidies and restrictions on private sector distribution of inputs have been removed.

o After liberalization, the government continued to guarantee minimum support prices for certain commodities. These official prices were increased. In 1981 alone, official sorghum and corn prices were raised by 50 percent and banana prices by more than 100 percent.

Manufacturing and Service Sector Reforms In addition to market liberalization in agriculture and changes in the foreign exchange regime, a number of steps were taken to improve the climate for private enterprise. Under the 1981-83 adjustment program, liberalization of private sector imports and closures of public sector enterprises occurred. Under the 1985 adjustment program, a Chamber of Commerce was established and the private sector became free to form trade associations. New laws regarding investment and private banking are being developed.

Impacts

The impacts of these reforms may be summarized as follows:

Macroeconomic Reforms

- The trade deficit fell from $327 million in 1980 to $301 million in 1985. In particular, the agricultural trade balance improved with increases in exports and declines in imports.
- Banana export revenues nearly trebled between 1981 and 1986.
- Prior to the Saudi ban, livestock exports grew. Since 1985, Somalia has been able to expand livestock exports through the development of new markets, particularly in Egypt. Total livestock export revenues have not reached pre-1983 levels, however.
- Cereal imports have declined during the 1980's. In real terms cereal imports fell 28% over the period 1981-85.

Agricultural Sector Reforms Aggregate data on agricultural production is presented in Table III:

- Sorghum production, largely by smallholders in dryland areas, increased from an average of 139,000 metric tons during the 1970s to 260,000 metric tons in 1985.
- Corn production, largely by smallholders in irrigated areas, increased from an average of 107,000 tons in the 1970s to 280,000 tons in 1985.
- For the most part, these production increases are a response to increased plantings, as farming has become more profitable.
- Banana output, after averaging 127,000 metric tons in the 1969-74 period, and falling to 69,000 metric tons in 1981, rebounded to 110,000 metric tons in 1985.
- Real retail prices have increased by 155% for corn and by 44% for sorghum since 1981.
- Taken together, increases in prices and output have meant an increase in rural incomes from grain production of 162% between 1981 and 1985.

TABLE III
AGRICULTURAL PRODUCTION IN SOMALIA, 1979-85

(In thousands of metric tons)

	1979	1980	1981	1982	1983	1984	1985
Corn	108.2	110.5	143.0	150.0	235.0	270.1	280.0
Rice	13.4	16.7	7.7	20.0	2.8	4.2	6.2
Sorghum	140.1	140.5	222.0	235.0	120.0	221.2	260.0
Beans	8.2	9.3	2.5	5.9	20.8	31.6	39.0
Staples (Total)	269.9	277.0	374.4	410.9	378.6	527.1	653.2
Bananas	72.2	60.4	69.0	72.0	85.0	106.0	110.0
Sesame	40.6	38.4	27.1	57.0	59.5	46.0	100.0
Peanuts	2.8	2.9	0.8	3.2	2.6	5.0	3.9
Vegetables	26.6	27.2	20.3	102.3	82.0	95.0	67.0
Cotton	3.0	3.3	1.6	4.7	4.0	4.0	2.9
Sugarcane	265.0	419.5	378.2	483.2	449.7	342.3	416.0

Source: IMF, "Somalia: Recent Economic Developments," September 8, 1986, and Max Goldensohn, Donald Harrison and John Warren Smith, <u>Donor Influence and Rural Prosperity: The Impact of Policy Reform on Economic Growth and Equity in the Agricultural Sector in Somalia</u>, 1987.

Reforms in the Manufacturing and Commercial Sectors

- The reform program has had a powerful impact on small and medium sized private enterprises in both manufacturing and services. There has been a proliferation of private enterprises.

- In addition, there is evidence of a significant rise in employment and real wages throughout the country. Consumers are also benefiting from the increased availability of consumer goods.

<u>AID's Role</u>

The key players promoting macroeconomic and agricultural policy reforms in Somalia have been the IMF, the World Bank and A.I.D. Generally speaking, all have agreed on the major economic issues, although, from time to time, they have diverged on the timing and pace of economic reform. The donors support common themes of strengthened public finances; parastatal reform; adoption of a realistic exchange rate; easing of foreign exchange controls; relaxation of price and import controls; promotion of private sector activity; and encouragement of agricultural production.

A.I.D. has been active in the promotion of reform across a wide spectrum of issues. In 1986, pledges totalled $88 million. Roughly three-fourths was in the form of non-project assistance. This non-project assistance has been A.I.D.'s primary vehicle for promoting economic reform. Macroeconomic reforms have been encouraged under the Commodity Import Programs, between fiscal 1982 and 1985, and under a fiscal 1986 Cash Sales Program. This balance of payments support helped Somalia to put into place IMF stabilization and structural adjustment measures. Promotion of private sector activity through rationalization of parastatal enterprise and liberalization of import and export licensing, has been an overriding theme.

U.S., P.L. 480, Title I Programs also supported policy reforms, particularly in the agricultural sector. The primary focus of the self-help measures incorporated in the P.L. 480, Title I programs has been on the liberalization of internal marketing; elimination of price controls for many crops, especially cereals; and, a reduced role for public sector institutions. In addition, Title I has been used to encourage much needed civil service reform. For instance, the policy of guaranteeing jobs in the civil service to high school graduates has been discontinued.

Assessment

Policy reforms are helping Somalia to make the best of a difficult situation. Somalia's resource base is thin; it is deeply in debt; and its two most important sources of foreign exchange are in disarray: livestock exports to Saudi Arabia and incomes of oil workers in the Middle East. Market liberalization, price policies and exchange reforms helped Somalia to boost agricultural output, to expand other export markets and to attract a larger share of remittances from abroad. These changes provided the catalyst for increases in private sector activities. The benefits of Somalia's policy reform programs appear to be widely distributed: small farmers and urban consumers alike are better off.

As in Zambia the structural reforms have led to substantial positive impacts on incomes, prices, and output. A large number of people, largely farmers and workers, are better off. As in Zambia, these positive real effects have been overshadowed by a continuing weakness in government accounts brought about by prior debt service obligations and exogenous factors such as the closing of Saudi livestock markets.

A number of policy issues remain. The most urgent needs for policy reforms are in the following areas:

- o Continuing reforms in the exchange regime and further depreciation of the shilling.
- o Reducing the role of public enterprises in the agricultural sector.
- o Establishing land tenure policies and putting new investment laws into place.
- o Liberalization of the banking system allowing interest rates to reflect underlying market conditions.
- o Rationalizing government spending: civil service reforms must be pursued. Investment priorities must be set and allowances made for recurrent costs of public sector activities.

REFORMS IN MALI[16]

Background

Upon independence in 1960, Mali inherited an economic system molded by the extensive intervention of the French colonial administration. Prices and commerce were heavily regulated. Investments were also controlled; for instance, substantial resources had been devoted to the development of irrigation.

After independence, Mali took a strong turn towards socialism, stressing social equity, modernization and independence from France. The new government, like the colonial administration which had proceeded it, intervened extensively in the economy. It embarked on a program of rapid industrialization to be financed by increased taxation of the agricultural sector. New state-owned enterprises were created, private businesses and banks were nationalized and public sector employment expanded.

Economic growth fell short of expectations and Mali soon ran into difficulties in financing its development program. Increasingly, government deficits were financed through domestic borrowing. Economic policies began to choke the agricultural sector and Mali's food imports increased while exports slowed. As a result, Mali encountered foreign exchange shortages and tightened controls on imports. By 1968, government restriction of private sector activity and the poor state of the economy came to a head, leading to a coup d'etat.

Although the new military government of Moussa Traore began to relax the restrictions of the previous government, the Malian economy continued to founder during the 1970's. Drought and the oil price shocks in the 1970's disrupted Mali's economic development. Despite promises to liberalize the economy, the state maintained its monopolies in external trade and in agricultural markets. The public sector continued to grow. Taxes were increased and food prices were held down.

GDP increased during the latter part of the 1970's, but this came at the expense of a deteriorating financial position. Public sector employment continued to increase. This contributed to growing expenditures as government deficits rose to one-third of revenues. Financial losses of public enterprises reached 20 percent of sales. In addition, Mali's current account deficit grew to 19 percent of GDP by the end of the 1970's.

The Reform Program

In response to the lack of economic growth, Mali began to take significant steps in reforming economic policies in the early 1980's. Furthermore, the IMF and Mali's donors began linking their economic assistance to policy reform actions. Marketing and pricing reforms in the cereals sub-sector are discussed at length below. Other reforms may be summarized as follows:

Money and Banking Reforms In 1962, Mali withdrew from the West African Monetary Union. In 1981, an agreement was reached leading to Mali's reentry. Mali thus gained the benefits of a stable and convertible currency through membership in the French-backed West African Monetary Union. But, this entailed loss of autonomy in setting exchange rates, money supply and policies regarding interest rates. IMF agreements imposed further restrictions on credit and external debt.

Public Finance Reforms IMF agreements and the United States' 1985 Economic Policy Reform Program supported reforms in several tax rates and in tax collection. Spending reforms emphasized the reduction of public sector personnel expenditures. Government wages were frozen between 1982 and 1985. Other measures to reduce government spending include reducing scholarships and improving budget management and investment planning.

Industry and Service Sector Reforms Since the early 1980's, Mali has engaged in efforts to restructure its public enterprises while encouraging private sector activity and reducing public sector intervention in the economy. By liquidating some public enterprises and ending the monopolies of others, reducing subsidies, increasing private sector access to credit and reforming taxes, Mali is improving the climate for private enterprise.

Mali's Cereals Sub-Sector

The agricultural sector accounts for 60 percent of Mali's GDP, and is dominated by cereals, cotton and livestock production. The dominant factor in Malian agriculture is its vulnerability to highly variable rainfall conditions. Millet, sorghum and corn (coarse grains) account for 90 percent of Mali's cereals production. These cereals are produced primarily by small farmers under traditional, low-input conditions. Increasingly, however, fertilizer, animal traction and even mechanical technologies are being used in corn production. Although farmer's marketed surplus of coarse grains fluctuates widely, depending on the size of harvests and stocks, these sales probably account for less than 20 percent of production. From all accounts, farmers are able to reduce their risk to some degree by traditional storage methods which are efficient enough to carry stocks over several years.

Milled rice makes up the balance of domestic cereal production. Roughly half of the country's rice paddy is produced under controlled irrigation under the control of public sector rural development organizations, such as the Office du Niger. Although rice is produced by small farmers, these organizations controlled the input supply, procurement and marketing of rice.

Prior to 1981, the Government of Mali intervened extensively in the cereals market. Markets were subject to the monopoly of OPAM, the cereals marketing board. Private, inter-regional grain trade was severely restricted, although the Government's control was more apparent than real. In reality, OPAM never handled more than 10 to 15 percent of the coarse grain market. Nevertheless, the Government's right to control grain markets substantially increased the cost of marketing, through bribery and the threat of confiscation.

The Cereals Market Restructuring Program[17]

In 1981, Mali began the Cereals Market Restructuring Program (known by the French acronym, PRMC), a series of price policy and restructuring reforms in the cereals sub-sector. The goal of these reforms is to assist Mali to achieve food security on a self-sustaining basis. The program's primary strategies are: a), market liberalization, b), improved production incentives, and c) reductions in subsidies to the state grain marketing system.

Market Restructuring In 1980 and 1981, steps were taken to open trade of all cereals, except rice produced in the rural development organizations' zones, to licensed merchants. Roadblocks designed to restrict grain movements within the country were eliminated. In addition, private cereal imports were legalized. Substantive liberalization of the rice market did not occur until 1985/86.

Price Policy Reforms Mali's Cereals Market Restructuring Program involved increases in official producer prices to encourage production and increases in official consumer prices to reduce public sector subsidies. With decontrol, official producer prices became, in essence, minimum support prices. Ceilings on consumer prices were kept in place to shield consumers from high prices in remote areas, during lean seasons and in years of low domestic production. Official prices for coarse grains and rice were raised in 1981, 1982 and 1985.

Public Sector Fiscal Reforms Specific steps were taken to reduce OPAM's costs of operation. Technical assistance was provided to improve management. One means of reducing costs was to reduce the number of employees. While some layoffs occurred, further staff reduction is needed. Another approach was to reduce the size of OPAM's truck fleet. Unit costs of transportation were high because truck usage rates were low, particularly since there was no back-hauling. Private sector trucking is now used.

Impacts of the Reform Program

The Mali Cereals Restructuring Program must be seen in the light of two major factors that differentiate it from Somalia and Zambia. In the first place there was a dramatic change in agricultural conditions that separates the early years of this program (1982, 1983, 1984) from the later years (1985, 1986). In the early years Mali was plagued by drought, and food was in relatively short supply. Thus, market prices exceeded support prices. In the last two years Mali's food production has soared, and Mali has gone from deficit to surplus. Consequently market prices dropped sharply, well below support prices. While the Government attempted to sustain these prices, it soon ran out of money and was forced to allow the market to determine grain prices. The program had very different effects in each of the two periods.

Secondly, the evidence in Mali is much less conclusive than that in Zambia and Somalia. Given the dominating effects of weather it is difficult to link policy reforms to changes in production and income. In Zambia and Somalia there were clear indications of increased input usage (increased hectarage and increased seed consumption) which indicated farmers were responding to higher prices. In Mali there is no evidence of increased input use (nor is there evidence to the contrary). The data are simply not available. A.I.D. is currently supporting a research project with Michigan State University which may provide, perhaps in a year, the requisite information. In the meantime, most of the following comments represent "best guesses."

Market Liberalization There is no evidence that these reforms significantly affected the volume of coarse grains marketed by the private sector. Prior to policy reforms, private traders already controlled 80 to 90 percent of the coarse grain market. The clearest positive impact of the liberalization program has been an increase in the efficiency of private grain marketing.

Interference in grain markets by local authorities is still common but is not as disruptive as the pre-1981 policies. When domestic output increased because of good rainfall in 1985/86, and, as a result, market prices fell below support prices, OPAM was forced to increase its purchases. Rather than crowd private traders out of the market, it used the private sector to procure grain.

Until 1985/86, the rural development organizations controlled over 40 percent of marketed rice production. By the time the purchasing in these areas was opened to the private sector, free market prices fell below buying prices offered by the public sector. Thus, there has been little private trade in domestic rice so far. However, private rice imports have increased significantly since 1981.

Price Reforms There is no good evidence to show that these reforms had an impact on cereals production. Weather seems to have been the primary factor in output fluctuations since 1981. Other factors constraining output growth include scarcity of credit, low use of inputs, and adverse natural conditions.

While production increases may not have been attributable to the pricing reforms, coarse grain farmers' incomes were higher than they would have been in the absence of policy reforms. During the drought period farmers had access to free market prices which were above official support prices. During the glut, they benefited as long as the public sector was able to purchase grain at the official price. However, since small farmers retain most of their output for their own consumption, this income effect was probably small. When prices were high it seems that farmers chose to rebuild stocks and to allocate labor and savings to other productive activities. During the present grain glut, price incentives for grain producers are diminished.

Public Sector Finance Price policy reforms did not have the desired effect on public sector subsidies. While increasing producer prices, the program called for only gradual increases in official consumer prices. The Government of Mali was reluctant to increase consumer prices because cereals account for a significant share of urban consumers' expenditures and are, thus, politically volatile.

For most of the period, the fact that producer prices increased faster than consumer prices did not constitute a major drain on the finances of OPAM. However by 1985/86, surplus production drove down the free market consumer price below the official price. Thus OPAM was left with stocks of grain bought at high official market prices which they were unable to sell.

On the other hand, OPAM has succeeded in significantly reducing its costs of operation. Its operating deficits (before subsidies) were slowly reduced from 2.6 billion Franc CFA ($8.67 million) in 1980/81 to under 1 billion Franc CFA ($3.33 million) in 1984/85. Transport expenditures as a percentage of total sales revenues declined from 16 percent to 7 percent over the same period. However, OPAM's cost savings from these operational efficiencies were swamped by the costs of buying cereals at support prices which it has been unable to sell.

In addition, increasing autonomy of the rural development organizations has led to a shift of fiscal burdens from OPAM to these organizations. Currently, the Office du Niger and other rural development organizations are experiencing severe financial difficulties, because their costs of producing rice remain above the support price.

Role of the United States

The United States has participated in a highly praised multi-donor cooperation effort in support of Mali's PRMC. Other donors in the program are the EEC, France, Britain, Germany, Belgium, Netherlands, Canada and the World Food Program. Together, these donors have provided technical assistance and pledged over 250,000 tons of cereals food aid over a five year period. The United States' pledge was a P.L. 480, Title II-Section 206 program of 25,000 tons over five years.[18]

Counterpart funds generated from the sales of PRMC food aid have been used to:

- o cover part of OPAM's operating deficits during the course of the restructuring program;
- o finance OPAM's price support activities;
- o purchase supplemental food imports;
- o finance transfers to the rural development organizations, including interest payments on Office du Niger loans used to purchase cereals; and,
- o support selected production incentive activities.

Efforts are underway to respond to difficulties encountered during the reform program. Further policy reform to reduce the burdensome producer price support role of the public sector and to provide rural credit are under consideration.

Assessment

On balance, policy reforms have had a positive, but limited impact on Mali. The most significant gains for the economy as a whole come through gains in market efficiency, particularly from the cereal market reforms. Producers, traders and consumers are probably better off because of freer markets for coarse grains and rice. Several economies have been realized in public sector cereal marketing operations. Greater gains from market reforms may lie ahead. Rice trade was decontrolled only recently.

Policy reforms also resulted in financial transfers within Mali's cereals sub-sector. Price policy reforms led to a shift in subsidies from consumers to producers. Price supports during times of surplus shifted income from the donors to the farmers. The private trading and transporting sector has benefited from decreased interference and increased use of private marketing. Central to all of this has been the willingness of the multi-donor community to provide food which kept consumer prices within reasonable levels and use the generated counterparts to finance OPAM's consumer subsidies and price support activities.

It does not seem on the basis of existing data that policy reforms had the desired effects in three critical areas. First, no link has been established between increases in cereals production and policy reforms. Second, although farmers' incomes probably increased, it is not possible to disentangle the incentive effects of policy reforms from improvements caused by the weather. Third, variability in domestic cereal production overwhelmed the public sector. It was barely able to stabilize consumer prices as expected during the drought years, although some stability in rice prices was achieved. When cereals output rebounded in 1985/86 and 1986/87, the public sector was unable to sustain its buying operations. Despite earlier gains in cutting OPAM's operating deficits, storage costs mounted and OPAM was unable to sell under prevailing price policies.

Central to the problems the reform program faces is the tension between price support and market liberalization objectives. It may be that full market liberalization is not desirable in a country where production can be as volatile as it has been in Mali over the last five years. Moreover, if price supports are seen as a mechanism for stabilizing prices, for reducing the price swing between good years and bad years, some way must be found to manage large surpluses and to provide the financial wherewithall for OPAM to intervene massively in the cereal market. This is an unlikely prospect.

REFORMS IN ZAIRE[19]

Background

Zaire is well endowed with natural resources: substantial petroleum, mineral, and hydroelectric potential. However, its development has been handicapped by war and political unrest, the almost total disintegration of transportation links across its expansive territory, shortages of skilled labor, and bad economic policies.

From Independence to Reform The period leading up to and following independence in 1960 was disruptive both politically and economically. Rebellion against the Belgians and subsequent civil wars caused the destruction of capital and the flight of skilled expatriates. Zaire's economy deteriorated until President Mobutu consolidated his control over the government late in the 1960's. The economy improved between 1967 and 1974-- real GDP growth averaged 7 percent over this period. Monetary reforms, strong export performance, and expansionary fiscal policies fueled this growth. World prices for export commodities, especially copper, were highly favorable during this period. The Government engaged in a massive investment program focused on energy and industrial development. In 1967, the major copper mining concern was nationalized. In 1973, foreign-owned farming and agribusiness operations were transferred to Zairian ownership.

The economy hit the skids again, after 1974. As petroleum import prices mounted, export prices for copper and other commodities plummeted. Past investment projects failed to pay off -- many were poorly planned and excessively dependent on imported inputs. Earlier changes in policies concerning ownership of businesses and commercial farms proved disruptive to growth in industry and agriculture.

Zaire attempted to sustain its economic growth through increased foreign borrowing. As supplies of foreign credit began to dry up, the government resorted to domestic credit expansion by increasing money supplies. This fueled inflation and led to the overvaluation of the country's currency, the zaire.

Beginning in 1978, Zaire began to back off from many of the policies that had characterized the 1970's. The zaire was devalued, parastatal marketing organizations in agriculture were reorganized or eliminated, and agricultural pricing policies were reformed. Implementation of these reforms, particularly pricing reforms, was poor, and Zaire's economy continued its decline in the early 1980's.

Policy Reforms: 1983 to the Present

Beginning with its 1983 stabilization program, Zaire took steps to reduce overvaluation of the zaire, cut budget deficits, liberalize credit markets and reform agricultural markets.

Exchange Reforms A substantial devaluation in 1983 was followed by a series of measures establishing free markets for most foreign exchange transactions. Successful implementation of these reforms is demonstrated by the near disappearance of the black market for foreign exchange. Higher prices for domestically produced goods following devaluation and liberalization (see below) had a substantial effect on economic growth. After falling by 2.6 percent in 1982, real GDP rose by 1.2 percent in 1983 and 2.8 percent in 1984. Increases in diamond production were the leading cause of this growth. Output of oil, coffee and food crops also increased. Exchange reforms also facilitated imports of industrial inputs, but urban consumers' demand for industrial products fell as their purchasing power declined.

Money and Banking Reforms Since 1983, greater emphasis has been placed on limiting domestic credit expansion. Although interest rates were decontrolled for most lending, preferential rates for agricultural lending, controls on interest rates on deposits and quantitative restrictions on private sector credit were retained. Growth in the money supply was reduced from 65 percent in 1982 to 26 percent in 1986. While depreciation of the zaire fueled inflation, this was offset by restrictive monetary policies as well as improved food supplies.

Public Sector Reforms The Government of Zaire cut its budget deficits, from 6 percent of GDP in 1982 to under 1 percent in 1984. Government revenues were increased primarily through reforms in taxes on mineral and oil exporting companies. Zaire achieved some success in bringing government expenditures under control by reducing capital expenditure and cutting government employment. However, increases in debt service and a 1986 hike in civil service salaries devoured other budgetary savings. Improved fiscal discipline helped Zaire to restrain growth in domestic credit.

Price Policy Reforms Government price controls have been substantially reduced. In 1979, ceilings on agricultural producer prices were eliminated and floor prices were introduced. But, implementation was not uniform across the country; many farmers were unable to realize increases in prices. Consequently, in 1981 most farmgate prices were decontrolled. Exceptions were prices for corn, cassava, rice, cotton, palm oil and sugar. By 1983 prices for nearly all goods and services were decontrolled, although some restrictions on energy and utility prices and manufacturing profits still apply.

Agricultural producer prices increased rapidly in 1982 and 1983. Market liberalization and road improvements led to increased competition among traders and reduced their marketing margins. As these margins fell, farmers gained and traders lost. Devaluation also contributed to price increases. Food prices for consumers rose less rapidly than producer prices because of the demand reducing effects of devaluation and tight monetary policies.

Higher farm prices led to increases in output. A 1985 study of commercial and small farmers indicated that two-thirds had increased their production in response to liberalized prices.[20] By 1986, food supplies had increased and demand slackened. As a result, food prices fell relative to the consumer price index.

With higher producer prices and increases in output, rural incomes have improved. There are also indications of crop diversification and on-farm processing of agricultural commodities. Standards of living are improving as demonstrated by growth in investment in agricultural tools and housing, and in rural purchases of consumer goods.

A.I.D.'s Role

The impetus for many of Zaire's economic reforms came from the pressures of its own economic difficulties prior to 1978 and from its desire to obtain IMF financing and continuing support from the World Bank. Although the United States was not aggressive in urging policy reforms in the early 1980's, it provided Commodity Import Program support for the agriculture to reenforce policy reforms aimed at improving small farmers' incomes.

Assessment

Policy reforms, particularly decontrol of foreign exchange rates and liberalization of prices for goods and services, had a strong, positive impact on economic growth. It is clear that producer prices increased, and that price increases led to increases in output from both smallholders and commercial farms. However, presently, the information to make quantitative estimates of the impact of reform on rural incomes is not available. Implementation of price reforms in the agricultural sector was poor, particularly between 1979 and 1982. Because the country is so large and government is decentralized, market liberalization has not occurred in all localities.

Small farmers and producers of exportable commodities are the main beneficiaries of Zaire's policy reforms. Urban consumers, particularly consumers of imported goods, experienced a drop in real incomes. Manufacturers also felt a squeeze between rising prices for inputs and demand contraction. In summary, with the overall growth in economic output and improvements in distributional equity after 1982, Zaire's reform program to this point has been relatively successful.

Zaire's reform program tracks closely with those of Zambia and Somalia. Reforms have improved the lot of farmers, although poor implementation and limited infrastructure have limited the effects of these reforms. However, the macroeconomy remains shackled by falling export prices (particularly copper) and overwhelming debt service. Donor support has also been less forthcoming in Zaire than in the other reformers.

THE ZIMBABWE AGRICULTURAL SECTOR ASSISTANCE PROGRAM[21]

Between the end of white-minority rule in 1980 and 1986, the United States maintained an active policy dialogue with Zimbabwe. Despite the fact that many of the policies espoused by Zimbabwe run counter to A.I.D.'s advice, areas of mutual agreement have been found. The principle policy-linked assistance program was the Zimbabwe Agricultural Sector Assistance Program (ZASA).

Policy Reforms

The primary objective of the ZASA program was to support implementation by the Government of Zimbabwe of policies that would improve the economic status of the small farmers through increases in productivity and on-farm income.

To increase production incentives and reduce government subsidies, official producer and consumer prices for agricultural products have been increased. The Government's agricultural training, extension and research programs were redirected to support small farmers. Perhaps most important was the establishment of rural market facilities in smallholder areas. This involved altering the patterns of government expenditures and improving the flow of market information. In addition, credit supplies to small farmers were improved, commercial interest rates were raised in order to increase private sector credit availability, and public sector credit policies were reformed.

Impacts

Smallholder production of corn has trebled, from an average level of 400-500 thousand metric tons in the 1970's to 1.6 million metric tons in 1985. There are a number of factors that led to this increase:

- o Area planted increased by about 100%. The increase in area planted was due to increased number of farmers (52%); increases in total farm size (14%); and increase in the proportion of farm land devoted to corn (31%).

- o The increase in farmers was largely due to the ending of the war, while the increase in area planted was due to increased profitability of corn production. This in turn was due to higher corn prices, new market outlets, and increased supply of production inputs.

- o Yields increased by 60%, because new markets and profitability made it economic to use intensive techniques. Thus,

- o Hybrid seed use in some areas increased from 30% to 85%;

- o Fertilizer use increased from an average 25,000 metric tons in 1974-79 to 150,000 metric tons in 1985.

- o In 1979, there were only 2,850 loans given to smallholders, with total credit equaling Z$485,000; in 1984 there were 64,000 loans, totaling Z$30,000,000.[22]

Assessment

The ZASA program is a good example of a coordinated set of actions to remove a set of constraints to growth in a specific economic sector. Improved pricing policies were supported by actions to provide credit, marketing outlets, input supplies, and useful information on farming methods and market conditions. Foreign exchange from the ZASA program helped Zimbabwe to import agricultural and transportation inputs.

IV. SYNTHESIS OF IMPACT ASSESSMENTS

There are a number of clear conclusions emerging from the foregoing assessment of policy reform programs in Africa. In summary:

IMPACTS IN THE AGRICULTURAL SECTOR

Farmers responded to changes in incentives. There is clear evidence that farmers responded to freer markets and price signals and made choices that maximized their welfare. In the past when African governments taxed farm production by keeping prices low, farmers reduced their effort in the agricultural sector and engaged in other income-generating activities. Farmers adjusted to improved market signals by rechanneling their energies back into agriculture by expanding land and labor use, and using resources more efficiently-- altering the mix of inputs they use and diversifying crop production.

Reforms led to significant increases in food production. In the presence of adequate rainfall, donor-assisted policy reform programs were the dominant causes of increased food output in Somalia, Zambia, Zaire and Zimbabwe. Reform programs brought major shifts in relative prices, increasing returns to agriculture by as much as 100% in real terms. Not surprisingly, large changes in incentives had major impacts: in some cases acreages planted and marketed output have more than doubled (see Table IV).

The major beneficiaries were small farmers. Policy reforms increased the volumes of cereals marketed by small farmers-- overall, the amount of grain marketed by small farmers as a proportion of all grain marketed increased dramatically. As a result, small farmers' incomes increased, especially in Somalia, Zambia, and Zimbabwe. Somalia's policy reforms have had such a favorable impact in agriculture that they induced a migration of urban dwellers to the rural sector causing an increase in the number of small farms.

TABLE IV
REAL MARKET PRICES AND OUTPUT
OF SELECTED CROPS

(INDEXES, 1981= 100)

	1981	1982	1983	1984	1985	1986
			Real Market Prices			
Mali[a]						
Coarse Grains	100	78	92	111	95	62
Rice	100	90	81	78	71	67
Somalia[b]						
Corn	100	105	126	260	245	n.a.
Sorghum	100	74	66	135	144	n.a.
Zambia[c]						
Corn	100	105	101	113	95	173
Zimbabwe[c]						
Corn	100	127	104	86	93	114
Cotton	100	96	101	84	85	97
			Crop Output			
Mali						
Coarse Grains	100	96	81	641	129	164
Rice	100	73	69	59	116	141
Somalia						
Corn	100	105	164	188	196	n.a.
Sorghum	100	106	54	100	117	n.a.
Zambia[d]						
Corn	100	74	76	82	91	136
Zimbabwe[d]						
Corn	100	246	170	75	115	223
Cotton	100	110	87	92	137	163

a Retail prices adjusted by GDP deflator.
b Retail prices.
c Official producer prices adjusted by urban-low income CPI.
d Marketed output.

Source: A.I.D. estimates based on IMF and World Bank.

Agricultural policy reforms had a quick impact on output and income. In general, the evidence supports the view that the quickest way to lift African agriculture from its current stagnation is to support reforms in the producer's incentive structure. This should not be surprising. An increase in real producer prices translates into a direct increase in real cash income for every producer who enters the market. If African farmers are able to respond to higher prices by increasing output and sales, then their incomes will increase by an even greater amount. In contrast few programs to develop and transfer technology or provide credit can hope to reach all farmers in a decade, much less in a single year.

Policy reforms had the greatest impact where other constraints were less binding. In Zambia and Somalia, where land is plentiful, it was relatively easy to increase production extensively in response to changing prices. In Zimbabwe changes in prices were accompanied by improved marketing, better input supplies and access to credit. In Zaire increased production was hampered by a debilitated transport system. In Mali, farmers' risk aversion and tight credit reduced the impact in agriculture.

Policy reforms promoted private sector development in rural areas. The level and efficiency of private sector trade in farm products has increased. As rural incomes improve, consumer goods are becoming more widely available outside the major cities.

IMPACTS-- ECONOMY-WIDE

Distributional equity has improved: these countries reduced the urban bias of of their economic systems. Winners have been small farmers and workers in the non-formal sectors. Losers have been urban dwellers with relatively high paying jobs such as government employees and other formal sector workers. Reforms affect consumers in different ways depending on their sources of income and patterns of expenditure. Reform measures such as producer price increases and market liberalization promoted income growth for farmers. By contrast, urban wage earners have suffered losses as their wage increases were lower than inflation rates. This improvement in distributional equity is consistent with the United States' fundamental goals in supporting policy reforms.

Market structure and spending reforms helped African governments in their efforts to cut budget deficits. By reducing the role of public enterprises, improving performance and reducing employment, the public sector is cutting costs. But, producer price supports and consumer subsidies continue to burden the public sector. These are policies that are politically difficult to reform.

Reform programs had favorable effects on balance of payments. Reforms in the agricultural sector helped countries such as Somalia and Zambia to develop new export markets. Devaluations had the intended effects of increasing exports and reducing imports. There is evidence of increasing reliance on domestically produced agricultural inputs. Scarce foreign exchange appears to be allocated more efficiently, contributing to more efficient input use in agriculture and increases in industrial output.

Macroeconomic progress has been slow. Despite the positive effects of these reform programs, every country in this study, except Somalia, has seen the negative effects of bad weather, falling export prices, and debt service overwhelm the positive effects of increased efficiency and investment. A fall in export prices of 5% (coupled with inflation in import prices of 5%) means that an economy needs to increase its efficiency in the trade sector by 10% just to stay in place. Terms of trade declines have been especially deleterious in Zambia and Zaire (see Table V).

TABLE V
MACROECONOMIC PERFORMANCE

	MALI	SOMALIA	ZAIRE	ZAMBIA	ZIMBABWE
Growth of Real GDP (1980-85)	0.1	22.0	7.0	4.3	17.0
Growth of Real Agricultural GDP, (1980-85)	-19.0	51.3	13.0	6.5	28.8
Inflation Rate (CPI, 1985)	8.3	37.9	23.8	36.0	10.5
Ratio of Debt Service to Exports (Actual, 1984)	11.4	25.7	24.0	24.6	22.2
Ratio of Debt Service to Exports (Scheduled, 1986-87)	53.1	97.2	36.0	59.0	25.6
Change in Terms of Trade[a] (1980-85)	6.9	16.0	-22.3	-26.0	18.0
Official Development Assistance as Percentage of GDP (1984)	32.0	26.6	10.1	9.8	5.8
Export Growth (1980-85)	-19.5	-34.7	1.7	-48.1	-18.6
Import Growth (1980-85)	-20.8	-20.9	19.6	-55.8	-28.6
Growth of Debt (1980-84)	43.9	72.7	-1.9	27.2	107.5

[a] Composite change in prices of exports relative to prices of imports.

Source: A.I.D. estimates and World Bank, Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90, 1986.

IMPLEMENTATION

Policy reform implementation failures can defeat the best programs. Zambia's program is the one most affected by implementation failures, but the positive impact of reforms in Mali and Zaire have been reduced by mistakes in implementation.

Price interventions are extremely difficult to manage. Many reform programs linked liberalization with a series of support prices. In general, supporting high prices in the face of supply gluts is too much of a drain on government resources. Both Somalia and Mali were forced to suspend price support activities. Zimbabwe has been forced to reduce its support prices in the face of enormous grain stocks which it cannot afford to maintain. African governments do not have the resources to follow the types of farm programs pursued by Western countries.

Reform programs are underfunded. There is insufficient donor assistance to keep import levels from falling and inflation from increasing. The result is even greater pressure on urban incomes and purchasing power and increasing political disaffection.

THE ROLE OF THE DONORS

Even without reform programs, structural adjustment would take place. Ghana and Guinea are examples of African countries which didn't undertake reforms until the effects of bad policies led to de facto adjustment. Urban incomes fell, urban workers returned to the countryside (in Ghana) or emigrated (in Guinea). Investment declined, factories closed, infrastructure disintegrated. Even worse, education and health systems deteriorated. An entire generation in Guinea is virtually uneducated. These experiences are the alternative to a managed adjustment program.

The reform momentum in Africa has occurred through the confluence of two streams -- financial necessity on the one hand and common sense on the other. It is clear that past policies have been disastrous. Furthermore, it was no longer possible to pay all those subsidies, hire all those workers, print all that money. Something had to change. Thus it not surprising that African countries were willing to chart a new course.

External assistance has been critical to the adoption of policy reforms by African governments. Through policy dialogue and technical assistance, based on a coherent economic theory that pushes for a return to market principles, the United States, IMF, World Bank and other donors have helped African countries to recognize and articulate needed reforms. Financial assistance has cushioned the negative impacts of some of these adjustment policies. Plus, it is always convenient to blame one's problems on a bogeyman like the IMF.

A.I.D.'s role has been catalytic at times (for example, in Zimbabwe) and supportive of existing programs at other times (as in Zambia, Somalia, Zaire and Mali). Food aid to Mali, Somalia and Zambia have helped to avert food shortages during the reform process. Counterpart funds generated through sales of food aid have helped to relieve financial pressures on governments during transition periods.

In Mali, counterpart funds have been used to finance OPAM losses while the government was phasing in increases in consumer prices and reducing the size of its operations. Counterpart funds are also being used to finance village association and private sector purchases and storage of cereals. In Somalia, the United States is channeling food aid through the private sector by means of auctions as a way of building private sector trading capabilities. Counterpart funds in Zambia have been used to fund credit programs to help mitigate the impact of increased fertilizer prices, while counterpart funds in Zimbabwe were central to the expansion of credit and marketing facilities to smallholders.

Commodity Import Programs provide balance of payments support, supply critical inputs, and also generate local currencies for further developmental uses. United States' CIP programs in Somalia and Zimbabwe supplied needed agricultural inputs.

Cash grants also helped African countries by reducing balance of payments pressures while reforms were taking place. Cash grants were linked in Zambia to foreign currency auctions, making it easier for Zambia to accept devaluation by increasing the availability of foreign exchange for the private sector.

EMPHASIS ON POLICY REFORM SHOULD CONTINUE

Policy reforms are not the only answer to Africa's economic problems, but they are an important part of the answer. Judicious support of policy reform programs should be continued by the United States in support of adjustment, growth and development objectives. Policy reform programs should be balanced with programs and projects to address other economic constraints. The Zimbabwe Agricultural Sector Assistance Program is an example of policy reforms dovetailed with investment activities to increase smallholder output. Clearly agronomic research and projects to relieve infrastructural and credit constraints are necessary in certain settings.

Policy issues also stretch beyond the purview of African governments. Critical issues regarding African debt and the future of the world trade regime are international issues in which African countries have a small voice but a large stake. These issues merit attention in the formulation of U.S. economic policies.

Policy reform programs involve fundamental and often difficult actions on the part of African governments. It will take time for many reforms to be implemented and even longer until their full effects may be evaluated. It is important that the United States and other donors maintain their commitments to reform programs if these programs are to succeed.

FOOTNOTES

1. A fundamental difficulty in the assessment of impacts is in the attribution of causality: To what degree do reforms or assistance programs cause changes in outputs, incomes and welfare. See, Development Associates, Inc., "Evaluation Guidelines for Non- Project Assistance: Commodity Import Programs and CIP-like Activities," A.I.D. Program Design and Evaluation Methods Report, no. 4, 1985; and, World Bank, Structural Adjustment Lending, A First Review of Experience, Report no. 6409, 1986.

2. Development Associates, Inc., Impact Evaluation of USAID/Zaire CIP Grants, 1987; and A.I.D., Zimbabwe Agricultural Assistance Program, Project Evaluation Summary, 1985.

3. Clearly, much detail is lost through the aggregations treated in this summary. Certain countries and certain periods were more favorable. For instance, the region contains 5 countries whose fortunes were significantly affected by oil revenues, including the largest economy in the region: Nigeria.

4. John W. Sewell, Richard Feinberg and Valeriana Kallab, editors, U.S. Foreign Policy and the Third World: Agenda 1985-86, Overseas Development Council, 1985; and World Bank, World Development Report, 1986.

5. World Bank, Accelerated Development in Sub-Saharan Africa, 1981.

6. USDA, Economic Research Service, World Indices of Agricultural and Food Production, 1986.

7. World Bank, Accelerated Development in Sub-Saharan Africa, 1981; A.I.D., U.S. Assistance Strategy for Africa, 1987-1990, 1986. See also, Stephen M. Haykin, "Financial Crisis and Policy Reform," Sub-Saharan Africa, Situation and Outlook Report, USDA, Economic Research Service, 1986.

8. Calculated from the World Bank, Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90, Washington, D.C., 1986.

9. World Bank, Accelerated Development in Sub-Saharan Africa, 1981.

10. Organization of African Unity, Africa's Priority Programme for Economic Recovery, 1986-1990, Addis Ababa, 1985.

11. For a review of reforms implemented in Africa see Shirley Erves, "Policy Reform in Africa: Accomplishments Since 1982," (unpublished), 1987. See also, CDIE publications, including "Evaluation Guidelines for Non-Project Assistance," 1985.

12. Orest, Koropecky, Orest, E. Scott Thomas and Wesley Weidemann, _Zambian Agricultural Sector Policy Impact Assessment_, A.I.D., 1987.

13. Other significant reforms relating to employment and public finance are omitted for the sake of brevity.

14. These figures may be slightly inflated because some farmers are selling all of their corn, getting it milled and stored by NAMBOARD, and then buying it back as meal at the same price they sold it. This is another example of the problems of implementing liberalization piecemeal.

15. Max, Goldensohn, Donald Harrison and John Warren Smith, _Donor Influence and Rural Prosperity: The Impact of Policy Reform on Economic Growth and Equity in the Agricultural Sector in Somalia_, A.I.D., 1987.

16. David C. Wilcock, Alan D. Roth, and Stephen M. Haykin, _Grain Marketing Liberalization in Mali: An Economic Policy Reform Assessment_, A.I.D., 1987.

17. Other reforms in the agricultural sector involving cotton are not discussed.

18. The U.S. has provided 15,000 tons and an additional 10,000 tons are available if supply conditions warrant.

19. Development Associates, Inc., _Impact Evaluation of USAID/Zaire CIP Grants_, 1987.

20. Cited in Development Associates, Inc., _Impact Evaluation of USAID/Zaire CIP Grants_, 1987.

21. A.I.D., _Zimbabwe Agricultural Assistance Program, Project Evaluation Summary_, 1985.

22. David D. Rohrbach, "A Preliminary Assessment of Factors Underlying the Growth of Communal Maize Production in Zimbabwe," in Mandivamba Rukuni and Carl K. Eicher, eds., _Food Security for Southern Africa_, University of Zimbabwe, Harare, 1987.

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