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AFRICAN ECONOMIC POLICY REFORM PROGRAM

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AGENCY FOR INTERNATIONAL DEVELOPMENT

AFRICAN ECONOMIC POLICY REFORM PROGRAM

The AEPRP offers AID a unique opportunity to provide a new and independent voice in policy dialogue issues in Africa. This program has energized our Missions to redirect and expand the policy dialogue component of our programs; acted as a magnet in attracting other donor programs in support of policy reform objectives; and provided AID with an important entree with African governments in the policy dialogue process.

BACKGROUND

A.I.D.'s assistance strategy in Africa is based on the belief that a fundamental cause of economic stagnation in Africa has been the practice of most African states of following unsound economic policies. These policies derive from a belief that economic development in general, and a just distribution of economic goods in particular are best achieved when the economy is closely guided and directed by the State. The result has been highly regulated, inflexible economies which have not only wasted resources through unsound investments, but have stifled human initiative by providing inadequate incentives for work, investment and risk-taking. As a result Africa's economies have experienced neither growth nor equity.

Economic restructuring is the centerpiece of our assistance effort -- helping African governments restructure their economies to make them more open, more liberal, more decentralized, more flexible. And the centerpiece of our economic reform program is the African Economic Policy Reform Program (AEPRP). The AEPRP, a new initiative to help African countries reform policies which were causing economic stagnation, was announced by the President in 1984, with an FY 1985 program level of \$75 million. One of the most important aspects of the AEPRP is that country allocations are separate from normal budgetary procedures. This allows us to develop fairly sizable, discrete programs which are additional to normal budgetary levels. For example, the FY 1985 programs in Malawi, Zambia, Mali, Rwanda and Mauritius led to a doubling of the total assistance levels (including P.L. 480) into those five countries. (See Table I) Such a dramatic change in funding leads to the AEPRP being highly valued by recipient countries.

COUNTRY ELIGIBILITY

The following criteria were developed for determining the types of programs that could be designed for the AEPRP.

- 1) Programs were preferably to be non-projectized;
- 2) Programs could be developed in any sector, as long as there was an important relationship to A.I.D.'s strategic objectives;
- 3) All programs would be designed so as to assist in the implementations of key policy changes.

As for country selection criteria, the AEPRP was to be limited, in FY85, to those countries with a demonstrated commitment to policy

reform. Excluded, because they were already receiving a large share of U.S. assistance, were the four largest recipients of U.S. assistance (Sudan, Somalia, Kenya and Liberia). There was no per capita income or IDA-eligible limitation.

The application of the country selection criteria led to the development of a list of 16 countries that were eligible for the first tranche of assistance:

Senegal	Mali	Niger	Guinea
Madagascar	Cameroon	Zaire	Uganda
Malawi	Zambia	Rwanda	Zimbabwe
Botswana	Ghana	Togo	Mauritius

In the second year, after a number of intense discussions within the USG, it was decided to limit eligibility for FY86 to those countries which were eligible for assistance from the World Bank's special facility for Africa. The purpose of this restriction was to support the Special Facility, which at that time (Fall, 1985), had not yet received a U.S. contribution. As a result Cameroon, Botswana, Zimbabwe, Mauritius, and Swaziland were excluded from consideration.

With the expiration of the Special Facility in June, 1987, there was no longer any need to link the AEPRP to special facility eligible countries, and countries such as Cameroon and Botswana are back on the eligibility list.

As originally planned, \$75 million was allocated in FY 1985 to five AEPRP programs; budget stringencies limited A.I.D. to four programs totaling \$47.85 million in FY 1986 and to three programs totaling \$27 million in FY 1987. The existing programs are:

<u>COST IN MILLION \$</u>		<u>POLICY AREAS</u>
	<u>FY 1985</u>	
Zambia	25.0	Agricultural Marketing
Mali	18.0	Public Finance
Malawi	15.0	Fertilizer Subsidies
Rwanda	12.0	Industrial Incentives
Mauritius	5.0	Trade Policy
	<u>FY 1986</u>	
Senegal	15.0	Tax and Tariff Reform
Zaire	15.0	Trade Reform
Guinea	10.0	Agricultural Input Marketing
Togo	7.8	Export Liberalization
	<u>FY 1987</u>	
Tanzania	12.0	Road Maintenance
Cameroon	9.0	Fertilizer Subsidies
Gambia	6.0	Financial Sector

BROAD PROGRAMMING COMMONALITIES

CONDITIONALITY AND TRANCHING: Each of the AEPRPs is divided into several tranches. Before any tranche can be disbursed, recipient Governments must provide AID with proof that the Conditions Precedent (CPs) to that tranche have been met. These conditions vary from announcing new prices which reduce subsidy levels (Malawi and Zambia) to passing legislation or announcing administrative decisions to increase access to certain credit guarantees (Rwanda) to changing tax and tariff policy (Zaire and Senegal) to privatization activities (Guinea and Tanzania).

IMPACT OF AEPRP ON PRIVATE SECTOR: All of the AEPRPs are aimed at either reducing government activity in the productive sectors of the economy, reducing or rationalizing government controls on the private sector, or both:

- In Zambia and Guinea, the entire program is designed to reduce the Government's role in agricultural marketing to the level needed to ensure competition.
- In Camerou the program is designed to privatize agricultural input delivery.
- In Rwanda, the program is designed to reduce government price controls, to broaden access to credit, and to rationalize the tax system.
- In Mali, while the major thrust of the program is to improve fiscal policy, a concomitant part of this initiative is to improve the investment climate for private sector activity through tax reform, reduction of price controls, and changes in the investment code.
- In Mauritius, Senegal, and Zaire, the major objective of the program is to increase efficient private sector activity by reducing tariffs and marginal tax rates.
- In Malawi, major studies are to be undertaken examining the role of ADMARC, the marketing parastatal, with particular emphasis on developing a capacity to privatize many of ADMARC's current functions.

LESSONS LEARNED: While we are still implementing these proposals, the process of design and early implementation has led to some important observations.

EFFECT ON NORMAL BILATERAL PROGRAM: The AEPRPs will have an impact well beyond the programs themselves. These programs have tended to be more directed at broad development issues and our development strategies in each of these countries are being redirected to take advantage of the new opportunities offered by the AEPRP. There are two reasons for this phenomenon:

(1) Missions saw the AEPRP, because it was funded out of ESF, as being available for broad strategic programs. Indeed, three of the AEPRP programs concentrated on either the industrial sector or the broader issue of public vs. private sector.

(2) The nature of the AEPRP, a concentrated and dramatic increase in program levels, attracts considerable attention from recipients. It gives us a basis for a continuing policy dialogue as well as a seat at the policy table which we wouldn't otherwise have.

THE IMPORTANCE OF PROCESS: Perhaps as important as the product in each of the AEPRP countries is the policy dialogue process which these programs have engendered.

- In Rwanda, the Government set up a special inter-departmental committee to develop and review policy reform proposals as part of their discussions with AID. As a result, the GOR is concentrating on policy reform issues for the first time.
- In Mali, our program is central to the start of a long-term process to reduce the role of government in the economy. Our program may be the catalyst needed to energize that process.
- In Malawi, we have moved from a minor donor to a major influence on agricultural policy. As part of the Malawi EPRP, we are entering into studies and discussions that may lead to major reforms in agricultural marketing, in agricultural pricing policy, and in divestiture of some major parastatal activities.

DONOR COORDINATION: The AEPRPs have been developed in close coordination with key donors, particularly the World Bank. Taken together, the AEPRPs and the Bank's structural adjustment programs have achieved a significant synergism not present when each was developed in isolation. Significantly, the AEPRPs have generally moved beyond what the Bank was doing, and advanced the reform process more quickly and probably more broadly than would have been the case without our presence. Equally important, the nature of these programs differs in important ways from IBRD policy reform programs, in that we have designed them to alleviate the political stress that policy reform brings.

- In Mali, we are the catalyst that has lent the necessary impetus to implementing reforms previously agreed to. Drawing on technical work done by the IMF and the UNDP, our program was the mechanism which concentrated the energies of the Malian Government, drew together different Ministries, and consolidated a number of different, and halting reform efforts.
- In Malawi, our program is part of a multi-donor effort connected to the World Bank's SAL (other donors include Great Britain, Japan, and Germany). The fertilizer policy reform is one element of the SAL. Because we concentrated on this issue alone, because we emphasized actions to help implement reforms, and because we contracted excellent technical staff our program was instrumental in making reform in this sector possible.
- In Mauritius, our program has been closely associated with the IBRD's trade reform program. In fact several Mauritian officials felt that the U.S. had shown far greater awareness of the exigencies of adopting economic reform measures within a changeable world economy and a democratic country than had the World Bank.

In Senegal, we have designed our program to complement the World Bank Structural Adjustment Credit (SAC). The Bank's SAC dealt in part with elimination of quantitative import restrictions and tariff rationalization. The Bank's program established a plan for trade reform in three separate stages but only provided conditioned funding for the first stage. The AEPRP then funded the remaining reform steps.

In Zaire, our program parallels that of the IBRD. We have adopted similar conditionality, and limited uses of the funds to those imports that will improve capacity utilization in the industrial sector.

DESIGN ISSUES: These programs have turned out to be more complicated than we first expected, because we have designed them in such a way as to put great emphasis on reducing the political costs associated with any changes. This has led us to associate our program funds with technical assistance so as to improve implementation and to target the use of our non-project assistance resources carefully thus leading us to get deeply involved in complicated local currency programming issues. For example:

In Malawi, the political problems associated with the removal of fertilizer subsidies led us to emphasize the need to change the types of fertilizer being used. This led to involvement in agricultural research and extension, in improving the capacity of the Ministry of Agriculture to test soils, and to examining the feasibility of building a fertilizer bulk blending plant in Malawi.

In Mali, the program required substantial technical and commodity assistance to monitor compliance.

In Zambia, our resources are being used to enable private sector traders and transporters to compete with the parastatal marketing Agency. Some of our local currencies will be used as carefully targetted subsidies to reduce the adverse impact of food price increases on the poorest urban dwellers.

In Togo, we have worked closely with the Government in designing market forecasting mechanisms that will enable the GOT to determine an appropriate number of export licenses.

In Guinea, we have had major difficulties in working with private banks in developing a loan program for the local currencies. At first, the banks were reluctant to assume any risk connected with the loan program, and it took a great deal of discussion to convince them that a sound financial system required risk-taking on the part of lenders.

STAFFING: The first generation of AEPRPs were identified and designed with substantial inputs of Washington staff, particularly economics staff. This was not the case with the FY86 programs, which were largely designed by Field staff. These programs require highly talented analytic staff in their design, but even more importantly, in their implementation. The ability of small Missions to monitor and implement these programs remains weak, and we continue to review their performance closely.

FAST DISBURSING?: AEPRPs are fast disbursing, once conditions have been met, but they should not be thought of as balance of payments support in the short-run. Rather, they are sources of flexible, relatively untied assistance, but have been designed to disburse over two to three years, depending on the speed of policy reform implementation (see Table II).

EVALUATION

It is much too soon to evaluate the performance of the AEPRPs. Since the first set were obligated in September 1985, we have only 24 months' experience. Given the political costs and the difficulty of implementation, policy reform efforts in Africa have not followed a smooth one-directional path. There have been some setbacks. Moreover, we have learned that some programs were too complicated, with too many reforms and very difficult implementation requirements, while others had conditionality that was too general. Of the nine programs in place during FY87, six (Mauritius, Zaire, Mali, Togo Guinea, and Senegal) are proceeding successfully and three (Malawi, Zambia and Rwanda) may be in need of substantial restructuring.

Among the accomplishments to date:

- Rationalization of tariffs in Zaire and Mauritius;
- tax reform and improved investment climate in Mali;
- tariff reform in Senegal;
- reduction of controls on agricultural exports in Togo.

By and large, we are pleased with recipient country responses. We knew that these programs would be high-risk, high-gain propositions. But they are designed with a very important monitoring and evaluation component which would allow for sufficient flexibility in revising the program.

AEPRP PROGRAMS

FY85

MALAWI (\$15 mil)

PURPOSE: To rationalize fertilizer policy in order to promote agricultural diversification.

POLICIES: (1) reduction of fertilizer subsidies; and (2) shift from low nutrient, high cost fertilizers to high nutrient, low cost fertilizers.

USE OF FUNDS: Cash grant of \$13,100,000 to be used to maintain the integrity of two credit funds associated with the purchase of fertilizer; technical assistance of \$1,900,000 for studies and assistance in budgeting, agricultural marketing including divestiture of parastatals, storage, and policy with respect to strategic grain reserves.

PROGRESS TO DATE: The first two tranches of program funds (\$8.0 million) have been disbursed. Policy reform benchmarks called for the following performance targets:

	<u>First Year</u>		<u>Second Year</u>	
	<u>Target</u>	<u>Actual</u>	<u>Target</u>	<u>Actual</u>
Average Subsidy	22.6%	22.6%	17.0%	15.0%
Share of High Nutrient Fertilizer Imports	10.0%	12.0%	25.0%	31.0%

However, the Government has recently announced new fertilizer prices which return the subsidy level to 21%. There are a number of reasons for this step backward, but we remain concerned about the future of this reform effort.

Local currencies have been used to fund the Smallholder Fertilizer Revolving Fund. Technical assistance has been used for short-term training, to study the fertilizer distribution system, and to fund a major analysis of the impact of the subsidy removal program on farmer income and national food security (Results to be available summer, 1987).

EVALUATION: Progress had been somewhat greater than expected in the policy arena. The GOM moved with great quickness to test new fertilizers and develop extension packages. On the other hand we have not agreed with their pricing methodology and found the result of the FY87 prices to be an elimination of subsidies on high analysis fertilizers, thus reducing the speed of transition. Disbursement of the final tranche remains in doubt because of Government's recidivism.

MALI (\$18,000,000)

PURPOSE: To begin the process of reduction of Government involvement in the economy, and to provide the environment for increased private sector activity.

POLICIES: (1) Tax reform and reduction to improve private sector incentives; (2) restructuring expenditures to begin reduction of civil service payroll and increase funds available for nonwage expenditures; (3) revision of commercial code; (4) relaxation of price controls.

USE OF FUNDS: (1) Cash grant of \$8,335,000 to reimburse GOM for short term revenue shortfall; (2) cash grant of \$8,365,000 to help the GOM increase its share of expenditures on nonpersonal costs; and (3) technical and commodity assistance of \$1,300,000 to aid in computerization of budget and tax collection.

PROGRESS TO DATE: \$6.46 million of program funds have been disbursed. To date, the GRM has:

- Computerized entire GRM payroll (with technical assistance from A.I.D.)
- Adopted Civil service hiring ceiling of 812 which is lower than A.I.D.'s target CP
- Have agreed with A.I.D. on target levels of non-personnel to personnel costs
- removed price controls
- reduced tax rates

The Government has moved into high gear with the voluntary departure program, and there seems to be much greater demand than financing. On the negative side, the depreciation of the dollar vis-a-vis the franc has meant that the program is underfunded and the Mission is requesting additional funding. One CP, dealing with parastatal divestiture has not been met, but was moved forward to the second tranche of the budget restructuring program.

EVALUATION: The program is progressing very well as measured by the design. There is some concern that it is very expensive (in terms of costs as a percentage of personnel expenditure reduction) for the policy changes engendered.

MAURITIUS (\$5,000,000)

PURPOSE: The purpose of this program is to aid Mauritius in its reform of its industrial incentive system.

POLICIES: Among the policies changes being called for are (1) imposing a ceiling of 100% on all tariffs; (2) reducing marginal personal tax rates; and (3) improving export incentives.

USES OF AID FUNDS: A.I.D. is providing a cash transfer to offset the fiscal loss of these reforms.

PROGRESS TO DATE: Both tranches have been released. Industrial incentive reforms were introduced in 1986. These included:

- Reduction in corporate income tax to 15%
- Special incentives for export production
- Reduction of maximum tariff levels

EVALUATION: The Government has complied with conditions. The non-traditional export sector is generating rapid increases in employment.

RWANDA (\$12,000,000)

PURPOSE To create an improved environment for the development of small and medium scale private enterprises.

POLICIES: Specific changes include: 1) liberalizing price controls, 2) examining the entire tariff structure; and 3) incentives and credit guarantees.

USE OF A.I.D. FUNDS: A cash grant of \$10,000,000 will be divided between a small and medium enterprise local currency credit fund, equity capital for privatization (subject to further design), and short-term revenue shortfall offset to the Rwandan government from these policy changes. Technical assistance of \$2,000,000 will be provided for studies and short term advisors to examine and improve the whole incentive structure for the private sector, including a comprehensive review of tariff and trade policy.

PROGRESS TO DATE: The first tranche of \$3.0 million dollars has been released, although no disbursement of the local currency proceeds has been undertaken. Rwanda has undertaken some reforms -- revision of investment code and opening up access of small enterprises to guarantee fund. Technical assistance team is in place and has undertaken studies of Rwanda financial sector, textiles and furniture sub-sectors, and potential for equity fund.

EVALUATION: The Rwanda program was designed in the absence of comprehensive background information on the economy and implementing institutions. In the course of implementation, program assumptions regarding opportunities for local currency use and the strength of the credit system have been found inaccurate. Furthermore, new information has revealed discrepancies between the program's conditions precedent and benchmarks and its Action Plan, making progress difficult without some modifications to the existing agreements. BUT, we have, through the technical assistance, a unique opportunity to influence public policy. The Government is especially

interested now in getting answers to important policy issues, such as the exchange rate and the tariff regimes. We have the only credible source of advice. There are good reasons to hope that our advice will be pivotal in leading to effective policies.

ZAMBIA (\$25,000,000)

PURPOSE: To liberalize agriculture marketing in the two major commodities still controlled by the Government, maize and fertilizer, in order to create the right incentive structure for agricultural development.

POLICIES: (1) Elimination of subsidies on maize and fertilizer; (2) Introduction of regional pricing for maize and fertilizer; (3) Allowing private sector marketing in maize and fertilizer.

USE OF FUNDS: Commodities financed under a CIP will be provided to improve agricultural marketing. These will include small trucks, tires, railway and truck spares, road maintenance equipment, and possibly POL. Local currency generations will be used for credit to private sector traders, for credit to the cooperative sector, and to provide targetted subsidies for the poorest groups adversely affected by food price increases.

PROGRESS TO DATE: Zambia met first tranche CPs and \$7.0 million was disbursed through the auction for POL. Policy reforms included reduction of maize and fertilizer subsidies and permitting private trade in maize and fertilizer. However, since the first tranche disbursement there has been a huge step backwards. In attempting to meet conditions for subsequent tranches, Zambia announced substantial increases in maize prices (including decontrol of the higher quality meal) and shifted the subsidies from the marketing authority (NAMBOARD) to the millers. This would have been a major, positive step, but it was hopelessly botched. The actual price increases were delayed because of the problem of getting a political consensus; yet the public knowledge of the expected increase led to hoarding; millers were asked to pay higher prices for maize than they could receive for meal. As a result, stocks of meal disappeared, and rioting ensued, in which fifteen people died. The GOZ responded by nationalizing the mills and rescinding the price increases. Subsidy levels are now so high that they threaten the stabilization program.

On May 1, Zambia announced it would no longer continue with its IMF/IBRD sponsored reform program, and would embark on its own reform effort. Preliminary analysis of that effort does not lead us to be sanguine about near term prospects for any policy reform effort.

EVALUATION: The Zambia program remains our most frustrating failure. Evaluation of the structural adjustment program shows real growth in the agricultural sector; but problems in implementation have destroyed the political support of the program. In hindsight it is clear that we should have been more actively involved in implementation of the reforms through technical assistance.

FY86

GUINEA (\$10,000,000)

PURPOSE: To revitalize private sector agricultural marketing in Guinea through the elimination of marketing parastatals and the provision of trade credit.

POLICIES: (1) Elimination of four parastatals involved in agricultural marketing; (2) elimination of all agricultural input subsidies.

USE OF FUNDS: The dollar proceeds of the grant are to be disbursed through the Guinea cash auction in two equal tranches of \$5,000,000. The local currencies are to be discounted to Guinean commercial banks which will then onlend them to merchants for short-term trade credit. The purpose of these loans is to provide working capital for traders to market consumer goods, agricultural inputs and agricultural products.

PROGRESS TO DATE: The first tranche of program funds has been disbursed. The GOG has undertaken all of the policy initiatives required for first tranche disbursement (agreement not to subsidize inputs plus a plan for divestiture). A critical problem has been solved in the area of local currency uses. At first, the new private banks were reluctant to accept the risk of lending. Prior arrangements with donors had involved the GOG accepting partial or total risk associated with donor lines of credit. A.I.D. believes that such a practice does not foster the development of well-working financial markets, and, after prolonged negotiations, have reached agreement with the private banks that they would accept all the risk of the A.I.D. line of credit.

EVALUATION: The progress of the Guinea AEPRP has been satisfactory. While it is too early to assess the impact, we look forward to this new flow of credit encouraging the commercialization of Guinean agriculture.

SENEGAL (\$15,000,000)

PURPOSE: The AEPRP in Senegal is intended to increase the efficiency of investment by rationalizing the trade regime and beginning a major review of tax policy.

POLICIES: Reforms of tax system, including: (1) rationalization of tariffs; (2) reduction of import quotas; and (3) a study of direct taxation.

USE OF FUNDS: \$14,000,000 to be a cash transfer disbursed over three tranches (of \$5.0, \$5.0 and \$4.0 million) as a cash transfer to the GOS to offset anticipated revenue losses from tariff reform. \$1,000,000 to be used for a study of the existing direct tax system, with particular concentration on the efficiency and equity impacts of tax reform.

PROGRESS TO DATE: First tranche disbursement took place in October, 1986, following Senegalese adherence to the tariff reform and import quota reduction timetable. Work has begun on the tax study. There seems to be no reason not to expect this program to be implemented as planned.

TOGO: (\$7.85 million)

PURPOSE: To promote trade in grains between Togo and surrounding food deficit countries

POLICIES: Gradual elimination of export controls on grains, especially corn through a series of export licenses.

USE OF FUNDS: A \$7.0 million cash grant, disbursed in two equal tranches, and a technical assistance project of \$850,000. The technical assistance is to be used to help establish a market information system, which would enable the Government to project grain supplies and demands, and to establish a licensing system based on these projections. Project funds will also be used for evaluation and monitoring purposes. Local currency counterpart funds will be used for activities linked to marketing: rural road maintenance, trade credit, storage activities, and training for TOGOGRAIN, the agricultural marketing and food stock maintenance agency.

PROGRESS TO DATE: Conditions Precedent for the disbursement of the first tranche of the program grant were satisfied by January 7, 1987, and the funds were released. Agricultural conditions (reduced production in Togo, and large surpluses in neighboring countries) probably means that there will be a limited supply and demand for grain exports in the 1986/87 crop year.

There has been substantial progress on the other aspects of the program:

- Establishment of a crop forecasting system;
- Collection of data via rapid reconnaissance for the first year of the program;
- Development of terms by which the National Agricultural Credit Bank will make loans to agricultural groups and traders.

EVALUATION: It is still too soon to look for results. Most of the process activities have been going very well. The crop year 1986/87 has not been one in which the conditions were ripe for these policy changes to make a difference. This will hopefully change in the 1987/88 crop year.

ZAIRE: (\$15 million)

PURPOSE: Rationalization of tariff regime.

POLICIES: Reduction of import controls and narrowing of tariff bands to between 30% and 60%.

USE OF FUNDS: CIP program in two equal tranches, conditioned on maintenance of a liberal exchange rate regime, satisfactory progress on fiscal policy, and reforms of tariffs and other trade policies.

PROGRESS TO DATE: Conditions precedent to disbursement of AID's FY 1986 AEPRP funds of \$15 mil have been met satisfactorily and the total \$15 million has been disbursed.

EVALUATION: It is too early to evaluate this program.

FY87 PROGRAMS

THE GAMBIA (\$6.0 million)

BACKGROUND

- The Gambian reform program, under the aegis of the IMF and the IBRD has already made great strides, particularly in liberalizing the exchange regime and getting government budget deficits under control, and is worthy of further support.
- The \$6 million AEPRP will support the Gambia's structural adjustment program (SAP) which began in earnest in 1985; the central thrust of the SAP is the creation of a policy environment conducive to increased private entrepreneurial activity. The AEPRP will help provide private entrepreneurs greater and more equitable access to markets.
- The \$6 million program is to be released in three equal tranches over three years in response to policy performance. This level was determined to be the minimum credible U.S. contribution that would enable us to engage in meaningful dialogue.
- The AEPRP constitutes the center piece of USAID/Gambia's program which consists of two major elements -- (a) support for agricultural development and (b) promotion of economic stabilization and reform.

- The AEPRP complements and reinforces IMF and IBRD reform efforts while extending the reforms in order that they comprise a more complete and coherent package of financial sector adjustment.

PURPOSE: The purpose of the AEPRP is (a) the establishment of viable, competitive conduits of agricultural credit including private credit sources, (b) advancement within the country of private enterprises and financial stability, and (c) an increase in the share of private commercial banking in the Gambia.

POLICY REFORMS:

- Specifically, the AEPRP will rationalize the operations of two major parastatals -- the Gambia Commercial and Development Bank (GCDB) and the Gambia Cooperative Union (GCU), both of which are competing unfairly with the private sector. The GCDB is the most significant source of loans to the agriculture sector; the GCU is the major source of formal credit for farmers, in addition to marketing fertilizer and other inputs and buying peanuts and other produce. The AEPRP will assist in restoring the financial viability of these two important institutions through moving them toward market-based operations and divestiture; in the past the institutions have wasted financial resources, inhibited private investment, and constrained privatization in the marketing of agricultural commodities. Also, the GCU's track record in recovering loans to farmers and cooperatives has been very poor.
- With respect to the GCDB, the AEPRP will encourage (a) government reduction of net indebtedness to the banking system by \$20 million -- a large portion of which is owed to the GCDB, (b) GCDB delineation of all debts and establishment of a plan and schedule for their elimination, (c) establishment and strict management of a fund of government guaranteed debt to help recapitalize the GCDB, (d) implementation of a comprehensive program of managerial and organizational reforms in GCDB to include setting up of commercial criteria and proper procedures for making and collecting loans, (e) differentiation by the GCDB between its commercial and developmental services with the transfer to the government's budget of the costs of any subsidies for developmental services, (f) termination of the requirement that GCDB furnish credit to the government, and (g) an end of the GCDB practice of providing preferential access to credit to any institution be it public or private.
- To help reform the GCU, the AEPRP will mandate (a) a complete audit of GCU, (b) an orderly elimination of labor redundancies; (c) borrowing by the GCU at market determined rates rather than preferentially from the GCDB, (d) an end to GCU preferential access to agricultural inputs, (e) termination of GCU subsidization of services, and (f) an elimination of government subsidies to the entity.

USE OF FUNDS:

- Credit for input marketing

TANZANIA (\$12.0 million)

BACKGROUND:

- Tanzania's reform efforts trace back to the period 1982-84, over which the country implemented a number of reforms, including: (a) depreciation of the currency, (b) increase in agriculture produce prices, (c) a cessation of the government grain purchasing monopoly, (d) termination of government handling of export commodities from farm gate to export sale, (e) reduction of subsidies, (f) a freeze on hiring of civil servants, (g) dissolution of several inefficient parastatals, and (h) liberalization of foreign exchange controls.
- While some backsliding was in evidence in 1985, Tanzania renewed the commitment to reform with the announcement in June 1986 of the Economic Recovery Program (ERP). An IMF stand-by arrangement was concluded in August 1986 and a World Bank Multisector Rehabilitation Credit in November 1986. A Paris Club debt rescheduling agreement also was reached in September 1986.
- The ERP is ambitious and far-reaching and constitutes an appropriate response to the country's severe economic difficulties, including debt servicing. The specific objectives of the ERP are: (a) an increase in the output of food and export crops through the provision of economic incentives, (b) allocation of investment resources to rehabilitation of physical infrastructure, (c) an expansion of capacity utilization in industry, and (d) the pursuit of appropriate economic stabilization measures in the area of fiscal, monetary, and trade policies. Implementation of economic policy reforms is now occurring across a wide spectrum, including (a) adoption of a realistic exchange rate, (b) further liberalization of exchange controls, (c) increases in producer prices for export crops, (d) elimination of consumer subsidies for petroleum products, (e) limits on the overall budget deficit through implementation of various new revenue measures, (f) ceilings on domestic credit expansion, net bank credit to the government, and credit expansion to marketing boards, (g) movement toward positive real interest rates, (h) imposition of constraints on medium-term non-concessional borrowing by the government, (i) reduction of existing government external arrears by \$50 million on an annual basis, and (j) rationalization of parastatal enterprise.

PURPOSE: To improve performance in the transport sector, particularly with respect to road maintenance and rehabilitation so as to facilitate agricultural marketing.

POLICY REFORMS:

- The AEPRP is to be disbursed over two tranches:
 - 1) CP for first tranche release calls for increased budget allocations to transport sector;
 - 2) CP for second tranche release calls for a series of actions designed to privatize and improve efficiency of certain road maintenance functions;

USE OF FUNDS:

- CIP for transport spares
- local currencies to be used for road maintenance

CAMEROON (\$9 million)

[THE LIFE OF PROJECT COST OF THE CAMEROON AEPRP IS \$20 MILLION OVER FIVE YEARS. THE FIRST \$9 MILLION IS TO COME FROM THE AEPRP AND TO BE USED FOR CREDIT; THE REMAINDER WILL COME FROM CAMEROON'S NORMAL OYB FROM THE DEVELOPMENT FUND FOR AFRICA].

BACKGROUND:

- Cameroon has been one of the best performing economies in Africa, even before it became a major oil exporter. Central to Cameroon's relatively good performance has been fiscal conservatism which has meant that the Government has been able to manage its own stabilization efforts.
- The good performance on demand management has not been matched by equal performance on the supply side, and Cameroon is rife with government controls, regulations and parastatal operations that reduce efficiency and slow growth.
- Recent declines in oil prices have made the need to restructure more imperative; the Government is particularly concerned about subsidies and about accelerating agricultural growth.
- Agricultural development, particularly in the cereal sector, is central to USAID's program in Cameroon; with the development of new research packages, input delivery is central.

PURPOSE: Improve efficiency of fertilizer marketing through privatization of fertilizer importing and distribution.

POLICY REFORMS:

- privatization of fertilizer importing and distribution
- reduction of fertilizer subsidy

USE OF FUNDS: Commercial Credit (\$14 million); fertilizer analysis, demonstration and handling (\$6 million).

TABLE I
AEPRP PROGRAMS AS A SHARE OF NORMAL BUDGET

	NORMAL OYB	AEPRP	AEPRP AS A % OF OYB
FY85			
ZAMBIA	28.6	25.0	87.4
MALI	25.0	18.0	72.0
MALAWI	10.7	15.0	140.2
RWANDA	12.3	12.0	97.5
MAURITIUS	2.1	5.0	238.1
TOTAL	78.7	75.0	95.3
FY86			
SENEGAL	44.8	15.0	33.5
ZAIRE	49.7	15.0	30.2
GUINEA	13.1	10.0	76.3
TOGO	4.8	7.9	164.6
TOTAL	112.4	47.9	42.6
FY87			
TANZANIA	7.9	12.0	151.2
GAMBIA	5.3	6.0	113.2
CAMEROON	16.8	9.0	53.6
TOTAL	30.0	27.0	90.0
GRAND TOTAL	221.1	149.9	67.8

TABLE II
 AEPRP DISBURSEMENTS
 (million dollars)

	TRANCHES	TOTAL	PROGRAM*	PROJECT*	PROGRAM	
					DISBURSE	PIPELINE
FY1985						
MALAWI	3	15.0	13.1	1.9	8.0	5.1
MALI	6	18.0	16.7	1.3	5.3	11.4
MAURITIUS	2	5.0	5.0	---	5.0	0.0
RWANDA	3	12.0	10.0	2.0	3.5	6.5
ZAMBIA	4	25.0	25.0	---	7.0	18.0
TOTAL 1985	18	75.0	69.8	5.2	28.8	41.0
FY1986						
GUINEA	2	10.0	10.0	---	5.0	5.0
SENEGAL	3	15.0	14.00	1.0	5.0	9.0
TOGO	2	7.85	7.0	0.85	3.5	3.5
ZAIRE	2	15.0	15.0	---	15.0	0.0
TOTAL 1986	9	47.85	46.0	1.85	28.5	17.5
TOTAL AEPRP	27	122.85	115.8	7.05	57.3	58.5

* "Program" refers to cash transfer or CIP; "project" refers to technical assistance, computer hardware, and studies.