PN-ACZ-481

USAID highlights

Vol. 6, No. 3 Summer 1989

Africans Initiating Economic Reforms

After nearly a decade of economic stagnation, famine and pestilence, there's good news out of Africa today. And, that good news may well grow as more countries join those already walking away from their old approaches to economic management.

African farmers have increased their production for each of the last four years by about 4%. In the 15 years before that, production had grown only 1.25% a year. Since 1985, Africa's gross national product (GNP) has grown by about 3% a year, excluding oil producing countries. While that only matches the rate of population growth, it means that for the first time this decade the average African is no longer getting poorer.

Assessing the Situation

A growing number of economic experts believe the improvement in Africa's economic statistics, beginning in 1985, is a result of economic reform and adjustment programs adopted by many African states. Over 30 African countries are now participating in International Monetary Fund (IMF) or World Bank policy reform programs that favor increased efficiency in reallocating resources to productive activities.

Those reforms are changing the structure of African economies so the countries will have a real shot at long-term growth.

Policy Reform Includes:

- Reducing government control over the economy;
- Allowing the price of agricultural produce to rise or change with market demands;
- Reducing the budget deficit;
- Reducing consumer demand for imports;
- Keeping interest rates above the inflation rate;
- Reducing the rate of growth in the money supply;
- Lowering overvalued exchange rates for a country's currency.

Policy reform is giving African farmers a reason to grow additional crops — fair market value for their produce.

Policy reform is not without critics. It is a difficult process, requiring some very basic changes in economies such as reducing government employment and cutting subsidies of food and energy.

No one would argue that this kind of fundamental change is not painful, but the alternative appears to be a relentless decline in everybody's standard of living.

Taking Stock of Reform

Though economic reforms are being adopted across much of the African continent, they still are being rejected by some countries—and the results are telling.

According to a recent study by the World Bank and the U.N. Development Programme, policy reform in Africa is beginning to produce real gains in production and economic growth. The

ISSN 0743-5436

Published by the U.S. Agency for International Development

report compared the economic performance of African countries instituting strong reforms to those with weak or no reform programs. It found that those with reform policies had stronger gross domestic product (GDP) growth and export growth along with solid improvements in agricultural production

The report was optimistic that Africa's recovery has begun, but it issued a warning: Increased productivity will not come overnight. Africa will continue to need outside help to sustain its reform-driven recovery.

It could be many years before African countries that choose to carry out strong policy reforms and structural adjustment programs are able to give their citizens the standard of living others in the developing world expect from their own economies. For example, if average incomes in 10 of Africa's poorest countries would continue to rise by 1% a year, it would take 50 years before incomes would reach the current level of the average person in India. Economic reform is a matter of urgency in these countries to achieve the rising levels of growth necessary to sustain an improved standard of living.

Reforms Bring Benefits

- GDP growth in the countries practicing reform policies increased from an average of 1% in 1980-84 to nearly 4% in 1986-87.
- GDP for non-reformers grew at only 1.5% for the same period.
- Export growth rates rose 5-6% in countries that initiate economic reforms.
- Non-reformers managed an export growth rate of only 1-2%.
- Agricultural production grew twice as fast in countries practicing policy reform as it did in those that did not.

Today, Africa is a land of about 40 countries with vastly diverse cultural and economic heritages. The region as a whole is among the poorest and least developed areas of the world partly because of long-standing problems that hampered growth and compounded social problems. But, it is also poor because some government policies discouraged individual initiative and entrepreneurship.

As many African countries gained independence in the 1960s, they consciously decided that development had to be guided and directed by the state. There was no indigenous formal private sector. Most private firms were controlled by multinationals and by citizens of other countries. Distrusting the private sector and building on colonial institutions, which also emphasized state control, young African governments took control of marketing and production. This state control of their economies ultimately led to distorted prices and markets. The governments often subsidized food to lower consumer prices. That action amounted to a tax on farmers—a tax that benefited city dwellers by helping them to eat at prices below the cost of producing the food. Often food was imported, creating taste dependencies for foodstuffs such as wheat flour that African countries may never be able to produce competitively.

At independence, most of Africa wanted to build an educated urban middle class. What developed instead was a small urban elite living at the expense of their country's farmers. This resulted in widespread rural poverty made worse by drought and, in many cases, civil strife. Many farmers got so little money for their produce that they left their farms and headed for the cities, further straining the social services provided by governments and decreasing the amount of food available for city dwellers.

The old economic system sought to provide services and employment alongside heavy industry. Eventually, the expense of this approach led to great inequity in African societies.

Over-valued currencies in many countries discouraged exports by making things too expensive to sell abroad.

In Sudan, for example, the official government exchange rate made it virtually impossible to export gum arabic, so plantation workers chopped down the gum arabic trees and used them to make charcoal to sell. This not only eliminated a resource, it damaged the environment as a whole.

Africa's internal economic problems were exacerbated when fundamental changes wracked the international economy in the late 1970s and the 1980s. World prices for many commodities traditionally exported by Africa fell sharply. The result was overall economic decline and a 20% drop in per capita income from 1980-85.

Though per capita growth had been slow in the 1970s, it worsened drastically in the '80s, turning into negative growth. Two major droughts, followed by famine, also struck the continent in the '80s. Even a plague of locusts laid waste to large areas of the Africa's Sahel. Populations grew faster than African economies. The oil shocks of 1973 and 1979 made imports cost much more for most countries in Africa. At the same time, the rest of the world, falling into recession, bought fewer African goods, causing their prices and profits to drop. The nations of Africa began to borrow heavily to maintain their levels of consumption. Continued borrowing grew into today's major debt crisis.

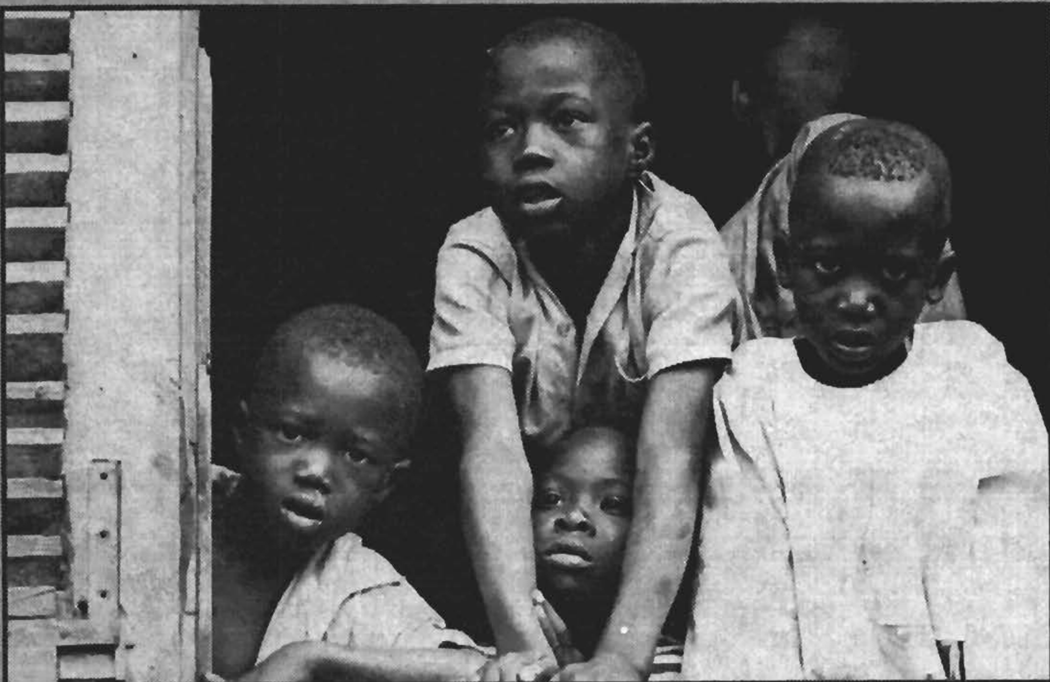
African governments realized something drastic had to be done to put their economies back together. What they found were the IMF and World Bank programs of structural adjustment and policy reform that were supported by the U.S. Agency for International Development (USAID).

Making Reform Work for People

In Mali, as part of its Economic Policy Reform Program, the government decided to improve the country's economic climate for private enterprise and to reduce the drain of the public sector on the rest of the economy. To do this, Mali had to reduce the size of its government payroll. With help from USAID and other donors, an innovative and completely voluntary early retirement program was developed to lower the government's salary expenditures without throwing people out of work.

Here, is the human side of policy reform as explained by Americans who worked in Mali:

When Mali's Mohammad Amin raises the steel shutters to his kiosk (a small sidewalk shop) along the dusty avenue across from Bamako's market place, he remembers the years he used to sit, drinking tea, doing almost nothing at his job in the ministry.



Young Africans, who live in countries that are adopting policy reforms and initiating structural adjustment, can look forward to a brighter future.

early-out program alone, it has some $.5 million more to spend on infrastructure each year.

Though Mohammad Amin is a composite of the 210 people the USAID staff assisted in Mali's early retirement program, the story is based solidly in fact and reflects the 80% satisfaction rate of those who participated.

Aided by adequate rain, last year Mali's farmers exported 100,000 tons of grain after satisfying the needs of their own country. In 1983, Mali was a grain importer.

What is happening in Mali and throughout Africa is part of a growing worldwide movement recognizing that the command economy experiment, that is, the system where the government dictates the terms of production, has failed. Letting people make their own economic decisions based on global economic realities has proven much more effective.

When he could, Mohammad would even slip away early and drive a rented taxi to make extra money. When he couldn't get away from his government job, he drove the taxi at night. The first job paid most of the rent for his two-room apartment; the second kept his family of eight from hunger. His hours were long. He rarely saw his family.

Then, the Mali government, as part of its overall program of economic reform, offered Mohammad and many other government employees incentives for early retirement. He left his poorly paid government job and used the retirement fund to help him secure a loan that he used to buy a kiosk near the market where the farmers come to sell their produce. The partially guaranteed loan program was yet another facet of the Mali Economic Policy Reform Program.

At first, his friends told him he was crazy to leave the security of government. Worse still, he was buying a shop to sell things to farmers. Everyone knew farmers were too poor to buy anything but the barest of essentials. The government marketing board paid them so little for their crops.

All that has been changing since 1985. Now the farmers have money. The government, with assistance from USAID and other donors, stopped regulating the price of commodities three years ago. Since then, farmers are free to sell their goods at whatever price the market will bear. Now, it pays to grow more than just enough to feed their own families. The farmers are spending some of their money at Mohammad's kiosk before returning home. He feels things are finally getting better—slowly to be sure—but better just the same.

Of course, Mohammad and the others who were part of the program don't think of it as a structural adjustment and policy reform program, but they know their lives have begun to improve. The government, too, is benefiting. As a result of the

Under policy reform in Zambia, for example, currency devaluation caused a dramatic increase in the use of the more effective ox plow over the old, short-handled hoe. USAID projects had been encouraging this switch for many years but with only limited success. The farmers, it was later learned, were saving to purchase imported tractors. When currency reform made the tractors too expensive, the farmers opted for the ox-drawn plow instead. Farm productivity then began making real gains.

Making Hard Choices

In spite of favorable evidence showing the long-term benefits of policy reform programs, the familiar and comfortable old ways of multiple currency exchange rates, subsidized interest, guaranteed jobs for all college graduates and heavily subsidized food are not always readily abandoned. They serve a politically powerful segment of Africa's populace.

But, deep in debt and with their currencies buying less and less, many African countries are facing up to this most unwelcome dilemma. The money has run out. There is no longer any way to continue the social subsidies many have known all their lives. Righting their economies after so long will be a painful experience for Africa's political elites and other privileged groups. In order to encourage farmers to grow enough to feed the nation and have some left over for export, the domestic price of food must rise to realistic world market levels. Where the old system was designed to serve those with political influence, economies in reform programs may reduce the living standards of some while raising those of the poorest sectors in society.

That, of course, can be politically dangerous because it strikes at the pocketbooks of the very class that Africa's leaders created, the bedrock of their political support. These are the people the government employs in its offices and industries—industries protected by import restrictions—industries which turn out products people buy only because there is no other choice. Economic policy reform creates opportunities for people to make their own choices. Choices like what to buy, at what price, from what merchant. Policy reform is the right to decide what to plant and when, and at what price to market the fruits of one's labor.

Letting people make these choices allows a nation's economy to respond more quickly to the ever-changing world economy and even to take advantage of the opportunities that change may offer.

Getting Results

To help create opportunities for economic growth, USAID is assisting several African governments face economic reform through projects designed to make the transition period less traumatic and the results more equitable--projects like the one in Mali that help public sector employees find more productive roles in the economy instead of remaining on the bloated government payroll.

Economic reform is difficult, but it is absolutely essential to produce the growth that Africa must have if it is to meet the needs of its people.

Economic reform is difficult, but it is absolutely essential to produce the growth that Africa must have if it is to meet the needs of its people.

USAID is helping Africa out of this cycle of poverty and doing it with very few tax dollars. America is only the fifth largest donor in Africa, behind France, Italy, Germany and Japan. But America's impact on policy reform in Africa is greater than this would imply. USAID is unique among Africa's donors, including the World Bank, because it has well-staffed missions throughout the continent with years of experience working to solve Africa's economic problems.

One USAID project, working with the World Bank, helped Madagascar liberalize its marketing system for rice. That caused the price of rice to rise according to market demand. As a result, Malagasy farmers are making more money and planting more rice. Madagascar may soon go from importing rice to exporting it. Projects like this one cost very little, but their results affect vast numbers of people.

USAID is getting positive results from policy reform over the last few years. However, just as important as the wide-ranging development impact from such reform projects is their tendency to be self-sustaining. Once people are allowed to make their own economic decisions, they will likely make choices that improve their lot in life, including the choice to keep adjustments and policies that improve standards of living. Economic policy reform is a very effective use of America's foreign assistance dollars.

Policy reform is only one part of what USAID does in Africa. About two-thirds of the Agency's programs still address specific problems in agriculture, family planning, health and education. These areas are critical to long-term growth. However, USAID's long-term efforts won't be effective unless African economic policies are improved.

Encouraging Africa to Stick with Reform

President George Bush, speaking at a Washington, D.C. news conference on July 6, directed USAID to forgive $1 billion in Development Assistance and Economic Support Fund loans to African countries that carry out International Monetary Fund or World Bank economic policy reforms.

While the President's move forgives only a part of the estimated $4.5 billion that African countries owe the U.S. government, it is seen as a way of encouraging these countries to stick with their IMF/World Bank reform programs. Without such reforms, a country cannot qualify for debt forgiveness.

President Bush's move is important beyond the dollar amount involved. Although the African countries may have started on the road back to development, they will need much encouragement to endure the rigors of the long trek back from negative growth.

Reform represents only the first few steps toward economic progress. But, for those countries that have started the long trek—the journey to sustainable economic growth has begun.

U.S. Agency for International Development
Bureau for External Affairs
Washington, D.C. 20523-0056

Third-Class Bulk Rt
Postage and Fees Paid
USAID
Permit No. G-107