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Africa/Middle East

Rwanda Reduces Subsidy to Coffee Farmers

Rwanda's decision in late March to reduce producer prices for coffee—its major export—by 20 percent is an encouraging sign of the government's commitment to economic reform, but the measure is unlikely to alleviate significantly the country's worsening financial crisis. After years of relative economic stability, Kigali is facing a foreign payments gap this year of at least $80 million and is negotiating for the first time with the IMF and World Bank for a stabilization and structural adjustment program. Rationalization of the commodity pricing system is a key goal; Rwanda's coffee sector accounts for over 80 percent of the country's export earnings and contributes 45 percent of GDP. Hit hard by a drastic decline in world coffee prices, the state-owned coffee board's stabilization fund has borrowed $100 million since 1987 to subsidize producers. Kigali's partial elimination of the coffee subsidy—the reduced price is still one-third above the world price—will ease somewhat the financial pressure on the government. The IMF also has recommended currency devaluation by 35 percent; the government's maintenance of an overvalued exchange rate has contributed to the drain on foreign exchange reserves by encouraging imports. Although Kigali remains reluctant to accept fully the politically painful IMF-backed austerity measures, the deteriorating economy may leave the government with little choice but to implement at least a gradual devaluation and further reduce commodity subsidies to attract fresh aid from the international financial community.