THE IMF AND THE WORLD BANK IN AFRICA

CONDITIONALITY, IMPACT AND ALTERNATIVES

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Seminar Proceedings No 18

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Foreword

The role of the World Bank and IMF has been widely discussed over the last couple of years. The discussion has not only dealt with the gigantic debt problems such as in Latin America. Also the relatively smaller, but nevertheless crucial, problems in Africa have been at the forefront. The role of the Nordic countries, for instance when it comes to backing the IMF conditions, has given rise to a vivid debate among concerned scholars. For such reasons we have at the Scandinavian Institute of African Studies nourished the idea to invite representatives for different positions to meet in an all-out inventory.

This thought came even more alive some two years ago. These were the days when the IMF conditions were felt hard in Zambia, and Tanzania was negotiating with the IMF. Julius Nyerere made his last visit as president to the Nordic countries. At a reception in the Swedish Foreign Ministry he met several old friends. The atmosphere was to me filled with partly broken visions, the emotion of bidding an era farewell and a feeling of uncertainty about even the immediate future.

At the Scandinavian Institute of African Studies also the more general impact than a strict change in economic policy was discussed; how problem formulations will change, how development strategies and priorities will alter, and how a general philosophical and ideological outlook is bound to change. First there was obviously the need to sort out the debate and issues linked to conditionality. Needed at the time was an opportunity for critics from within and outside the established system to meet those operating it in order to discuss pros and cons.

This was the proposal that emerged. Kjell Havnevik, researcher at the Scandinavian Institute of African Studies, formulated, assisted by others, a comprehensive programme which allowed different perspectives to emerge and confront each other. The outcome was an international conference, the proceeding of which are presented in the current volume.

Uppsala, March, 1987

Anders Hjort
Director

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Acknowledgements

The idea encouraging the Scandinavian Institute of African Studies (SIAS) to undertake this conference emerged in the first half of 1985. Since then individuals and institutions have supported it in various ways.

Birgitta Berggren, SIDA, and Anders Hjort, the director of SIAS, were the first to promote the idea. A seminar at SIAS in September 1985 on the debt crisis by Cheryl Payer and subsequent discussions helped us invaluably in developing the themes and the structure of the conference. Dag Ehrenpreis, SIDA, not only supported the idea of the conference but also provided advice in the planning process. At later stages constructive comments were received from Just Faaland (the Chr Michelsen Institute, Bergen), Knud Erik Svendsen (Centre for Development Research, Copenhagen), Bo Jerlström (the Swedish Ministry of Foreign Affairs), Bo Thomé (alternate board member of SIAS) and by Anders Hjort and Mai Palmberg, both of SIAS.

The institute is particularly grateful to SIDA who agreed to finance the conference. The Ministry of Development Cooperation of Norway provided economic support for production of the proceedings at rather short notice. SIAS cooperated with the Swedish Ministry of Foreign Affairs in order to widen the conference to include participants from relevant Nordic government institutions. The Seminar for Development Studies, University of Uppsala, co-arranged with SIAS an open seminar where some of the international experts introduced the issues to students and other interested persons.

The readiness of conference participants to contribute their experience, knowledge, time and also commitment, provided for three days of constructive discussion and learning. Through the publishing of conference proceedings it is hoped that others will be able to share at least part of it. The institute is grateful to:

- Frances Stewart, Cheryl Payer, John Loxley, Tony Killick, Patrick Ncube, Yusuf Bangura, Just Faaland, Knud Erik Svendsen, Ravi Gulhati, Louis Goreux and Samuel Wangwe for providing stimulating introductions and constructive responses and comments during discussions,
- Jens Erik Torp, Rune Skarstein, Jan-Otto Andersson, Peter Svedberg, Arne Bigsten and Pekka Korpinen for preparing themselves as discussants to various introductions,
- and to all other participants for contributing to and sharing their ideas in the conference discussions.

Unfortunately the conference proceedings cannot capture all the ideas and thoughts that came forward. In the Introduction, however, an attempt is made to identify and provide views on some of the major issues discussed.

The experienced administrative staff of the SIAS itself supported the conference in various ways; Kent Eriksson and Sven Jansson (printing), Susanne Linderos and Anne-Marie Vintersved (secretarial assistance), Ingrid Dahlqvist (accounting), and Karl Eric Ericson (publication). In addition the library staff has provided relevant background material. Support has also been provided by Louise Simann and Inga-Lill Belin. The overall task of coordinating the administrative support rested on Thomas Ridæus, who also participated in important parts of the support activities.

Uppsala, March, 1987

Kjell J. Havnevik

1. Introduction

Kjell J. Havnevik

In 1982 the Scandinavian Institute of African Studies (SIAS) arranged a conference titled "Recession in Africa". (Carlsson 1983) It emerged from the observations that the objective conditions for economic, social and political development in Africa had changed since the early 1970s.

The presentations and discussions at that conference revolved around the nature and origin of the recession in Sub-Saharan Africa. Policy options were explored on the basis of these discussions. The analysis put forward in the World Bank report, "Accelerated Development in Sub-Saharan Africa - Agenda for Action" (World Bank 1981), served as a point of departure.

The World Bank's policy recommendations included strengthening of price incentives for exports and agriculture, lower and more uniform protection for industry and a decrease in the use of direct controls. The Bank also argued that the public sector was over-extended given the scarcity of financial resources, skilled labour and organisational capacity. It was accordingly highly critical of the domestic economic policy regime in African countries and connected primarily the recession with this policy regime.

Later the World Bank has come to place more emphasis on the external causes of the recession and has as well argued that the adjustment required has to be put in the context of growth. (World Bank 1986a)

This shift to emphasising more the external ones and their interlinkage with internal causes and the ensuing and deepening crisis for most Sub-Saharan African countries, has also led to focusing more on the policies and conditionality of the International Monetary Fund (IMF). Increasing numbers of African countries have had to seek external financial assistance. In this situation, the role of the Fund, both in terms of its analyses and its setting of conditions for own loans and its implications for other loans, has become increasingly apparent. It turns out that two-thirds of the Sub-Saharan African countries at some time during the 1980s had an agreement of a stabilisation program with the Fund. In spite of a rapid increase in loans to the region, its current account did not improve. And in the years to come most of these loans have to be repaid with interest.

The growing importance of the IMF as a link between the industrialised and the developing countries, has also sparked off a debate, increasing in vigour. This debate has not been constrained to economic issues, but has also dealt with political, social and ideological aspects. Many observers, in particular in the Third World, have voiced the opinion that the IMF can be seen as a vehicle for capitalism and as such does not take due consideration to the development needs of the Third World. Others contend that the IMF as an institution bases its decisions purely on economic efficiency grounds. The range of positions on the IMF is wide, hence there is a need to clarify the content of the various positions and the causes for their difference.

This was the background for the decision by SIAS to convene a conference on the IMF and the World Bank in Africa. The conference should focus on conditionality and its impact, and emphasis on the World Bank should be limited to those functions which correspond to those of the Fund, i.e. structural adjustment lending and macro-economic analyses. The major objectives of the conferences were fourfold:

- to bring out the content of major positions on the IMF and the World Bank in Africa, their difference and why they differ.
- to present various case studies in order to trace the impact of IMF/World Bank analyses and conditionality.
- to investigate the impact of IMF/World Bank policies on the perception of development and debt problems among western countries, and in particular the Nordic ones.
- suggest and discuss alternative conditionality.

To obtain these goals, SIAS invited leading experts/researchers from African and western countries along with policy and decision makers in the IMF and the World Bank and the Nordic countries to Uppsala in January 1987.

SOME NOTES ON THE IMF AND WORLD BANK POLICY INSTRUMENTS AND THE ORGANISATIONS' EXPOSURE IN AFRICA

As a background to the subsequent papers and discussions some basic concepts and the origin and content of some of the policy instruments of the two institutions will be outlined. The objective behind this is to make the subsequent chapters more easily accessible to a wider audience. It should be kept in mind that when these organisations were created in 1944, they were designed to have different objectives; the Fund to provide temporary assistance to correct balance of payments problems in member countries, i.e. a short term objective, the World Bank to emphasise on growth and development through long term project lending, initially for reconstruction after the 2nd World War, but later to developing countries.

Central to Fund operation is the *quota*. Each member country has to pay into a fund according to a quota. This fund represents the basic source for loans to member states in order to correct balance of payment problems.

Different types of loans from the IMF are linked to the size of the national quotas. The quotas were worked out on the basis of a formula which included the country's national income, gold and foreign exchange reserves, size and fluctuations of its foreign trade, export dependence and with a different weighting of these various factors. The present quota structure still largely reflects the balance of economic and political power in the 1940s. Voting power in the Fund is linked to the quotas which implies that the industrial countries at present (57.6% of the votes) can control the operation of the Fund and the US (19.3%) can block any proposal to change the quotas which require an 85% majority. (Kørner et al 1986:46) The unit of account of the quotas is the SDR.

The sum a member state is allowed to draw from the Fund is determined by its quota. The first 25% is called The Gold or Reserve tranche. In addition there are four more *tranches*, each of 25% of the quota. The first of these, the First Credit Tranche, is not linked to conditions, but the additional three cannot usually be drawn by a country unless it has agreed with the Fund to undertake a stabilisation program and has signed a standby agreement.

A *standby arrangement* is defined as a resolution by the Fund to allow a member to draw sums totalling a specified amount during a certain period of time. The provision for demanding conditions for drawings beyond the first tranches is vaguely spelled out in Art. V, para. 3 of the statutes of the Fund. (Kørner et al 1986) A standby arrangement usually runs for a year, but increasingly, as the major part of the customers of the Fund has shifted to the Third World, more longer term loan arrangements were required in order to restore balance of payments disequilibria.

In 1974 the Fund established the *Extended Fund Facility (EFF)* . The EFF allows a country to draw beyond its quota for up to two to three years, if it implements an economic stabilisation programme agreed to by the Fund and adheres to performance criteria. Standby arrangements and EFF are sometimes lumped together under the term *tranche policies* by the Fund. Fund exposure in Africa has increased the most under tranche policies. At the end of 1977 such credit to countries in Africa under the auspices of the African Department of the Fund (Except the Sudan. South Africa belongs to the Fund's European Department) amounted to only SDR 0.15 billion, increased rapidly to SDR 4.4 billion at the end of 1984, to a peak of SDR 4.7 billion at the end of 1985, then declined to SDR 4.5 billion at the end of 1986. (IMF 1987; SDR was created as a foreign exchange reserve in 1969 in order to ensure sufficient liquidity for expansion of world trade. Its value is determined by the value of a currency basket containing the five major western currencies. Its value is presently slightly above the value of the US$.)

At the end of 1986 two-thirds of the 45 African countries under the Fund's African Department had Fund credit outstanding under tranche policies averaging 134% of the quotas. Seven Sub-Saharan African countries had made drawing amounting to more than 200% of their quotas during the 1980s (Ivory Coast, Uganda, Malawi, Kenya, Zambia and Ghana).

Total Fund exposure under the African Department increased from SDR 0.9 b. at the end of 1977 to the peak of SDR 6.6 b. at the end of 1984 and declined to SDR 6.1 b. at the end of 1986. This means that tranche policies are by far the most important IMF sources of credit for African countries. At the end of 1986 only SDR 1.6 b. came from other Fund sources, such as the *Special Facilities* which include *Compensatory Financing Facilities (CFF)*, *Buffer Stock Financing Facility (BFF)* and the *Oil Facility* and the *Con-cessional Credits* including *Trust Fund Loans* and the *Structural Adjustment Facility (SAF)*.

The CFF was originally designed for raw material exporting countries whose balance of payments problems were, at least partly, connected with export earning reductions for which the countries themselves were not responsible. The CFF was introduced in 1963, but began to be widely used at the end of the 1970s. *The Oil Facility* was in operation from 1974 to 1976 and its purpose was to ease the impact of rises in oil prices on the balance of payments of non-petroleum producing African countries. Net use of Fund credit under Special Facilities at the end of 1986 amounted to SDR 1.1 b. up from only about SDR 0.4 b. in 1976 (the Sudan excluded).

The Trust Fund was created in 1976 and ended in 1981. It was financed primarily by the sales of parts of IMF's gold reserves. Loans from this fund was often granted in connection with standby arrangements to the poorest countries. *The SAF* of the Fund is of more recent date. It was launched in 1985 in connection with the Baker initiative which called for adjustment with growth. It was specifically designed to be operated jointly by the Fund and the Bank. The concessional credit has played a limited role in total Fund credit, amounting only to about SDR 0.5 b. at the end of 1986 for the countries under the Funds African Department (excluding the Sudan).

The plan for the SAF was, however, to provide US$ 1.13 b. over three years to low income countries in Sub-Saharan Africa. This is still short of more than US$ 2 b. per annum in concessional credit required even if the minimal target of halting the per capita reduction in consumption by 1990 is to be met. (Loxley)*

Until the end of the 1970s the Bank on its part had focused on medium- and long term project loans to Third World countries. The most beneficial of these were the so-called IDA loans carrying no interest. Then in 1979 came

* Throughout the introduction references of this type refer to the subsequent chapter by the person named or to his or her comments during the conference discussions.

an important break in Bank lending practices, first through introduction of sectoral-adjustment loans (SECAL) and in 1980 through the initiation of structural adjustment lending (SAL). This change was instituted because of the "hostile economic environment that slowed and, in many cases, reversed, growth in the developing countries". (World Bank AR 1986:47) The use of SECAL was mainly for imports required by a specific sector and the loan required an agreement on a "specific monitorable action program..." The use of SALs was for general imports and they required an "agreement on effective stabilisation program". (World Bank AR 1985: 50-51) The objectives of SECAL were to support comprehensive policy and institutional changes within a sector while those of the SALs contained the same elements but were directed to the economy as a whole. Thus the World Bank like the IMF had put its feet into policy related lending. The implication of this for the development of conditionality and cross-conditionality in general and in specific country cases is dealt with in the subsequent chapter. (See also Hino 1986, Payer 1986 and World Bank AR 1986:56)

In 1986 World Bank (including IDA) commitments for SECALs amounted to 14% of total lending, up from only 1.1% in 1981. In the period 1979 to 1986 25 out of 52 SECALs committed were granted to countries in Sub-Saharan Africa. (World Bank 1986b: 47-48) Commitments to this region amounted to US$ 1.1 b., about 17% of the Banks SECAL loans. The share of SECALs in total Bank lending was envisaged in 1986 to amount to 10-15% annually in the rest of the 1980s. A ceiling on policy related World Bank lending has been placed at 20% of total lending. Through 1985 a total of 31 SALs, of which 6 were in Sub-Saharan Africa, had been approved by the Bank amounting to a total of more than US$ 4.5 b. (World Bank AR 1985:52)

THE SUB-SAHARAN DEBT CRISIS

The crisis is reflected in a growing foreign exchange gap and an increasing indebtedness of Sub-Saharan African countries. According to the World Bank the total short- and long term liabilities of these countries increased from US$ 38.5 b. in 1978 to US$ 80 b. in 1984, which amounted to 30% and 50% respectively of the region's total GNP. In absolute size, this debt is relatively small. For instance, both Mexico and Brazil alone have total debts of just above US$ 100 b., while Argentina has about half of this. However, what is the crucial point, is that the cost of servicing the African debt has reached unsustainable levels. Total debt service increased from US$ 6.4 b. in 1983 to US$ 7.9 b. in 1984. The debt service ratio of 21.6% in 1984 was expected to rise to 33.2% in 1985 for the continent as a whole.

(World Bank 1986b:52) For the second half of the 1980s it is estimated that IDA eligible African countries, even after extensive debt rescheduling, will have debt servicing ratios in excess of 25% of exports and for twelve other countries these ratios will be over 35%. (Loxley)

The present situation as well as the prognosis are alarming. The debt repayment difficulties are already reflected in increasing arrears on the part of many African countries both to the Fund and the Bank, institutions that for decades were proud to announce repayment records without arrears. For instance by the end of 1986 the countries under the Fund's African Department accounted for 25% of the total Fund arrears. A major problem connected with debt to international institutions like the Fund and the Bank, is that such debt payments are not eligible for rescheduling. And further that countries in arrears on such debts, are not allowed to reschedule their debt at the Paris Club. From 1985 onwards several countries were unable to reschedule because they could not agree on an adjustment program with their creditor and/or they had prohibitive arrears to the IMF or the Bank. And for those countries that are eligible for rescheduling, there has been a large number of Sub-Saharan African countries coming to the Paris Club.

The growing African debt crisis is also reflected in the fact that by the end of 1986, 64% of the total number of Fund arrangements were contracted by countries under the Fund's African Department. They included 21 standby arrangements and 5 structural adjustment facilities (Burundi, Mauritania, Niger, Senegal, the Gambia and Sierra Leone). (IMF 1987)

But, maybe the best illustration of the African debt crisis and the limitation of new loans is the fact that they are used to pay for old ones at the same time as the conditionality for new loans are becoming more complex. For instance, already in 1984 the total net transfer to Africa turned negative, which means that more capital is flowing from the continent than to it. And more recently, in 1986, the continent is actually paying back more to the IMF than it is receiving from the Fund in new loans. (Loxley) The net transfers from the World Bank to Sub-Saharan Africa are also quite limited. During 1986 they amounted to only US$ 869 million (Disbursements from IDA Special Fund excluded). (World Bank AR 1986:20, see also Jaycox et al. 1986)

In sum this means that the burden of the debt crisis and the hardship of adjustment so far have been borne by the African countries and the majority of the poor people residing there.

MAJOR CONFERENCE ISSUES

Adjustment programs

When the IMF and the World Bank design *adjustment programs* they rely on three major types of policies (Stewart):

(1) demand restraint which includes reduction in government expenditure, a ceiling on credit expansion, increased taxation and wage restraint

(2) switching of resources to tradables by using policy instruments like devaluation and price reform

(3) policies emphasising improvement of the medium and long term efficiency of the economy, which includes instruments like financial reform and import liberalisation.

Investigations have shown that Fund programs during the 1980s have been dominated by demand restraint, but they also contain elements of the two other types of policies.

Conditionality

Conditionality is the term given to the conditions relating to the above macro-policy elements which countries have to meet in order to get access to international loans. But during the 1980s conditionality has also widened to include additional conditions put forward by the World Bank relating to sectoral, institutional and more micro levels to qualify for the sectoral adjustment loans (SECAL) and SALs. In addition conditions for loans or aid may be demanded by other institutions like regional development banks and aid agencies.

It is argued in many papers that conditionality is also taking on a political character and may be linked to issues like ownership and the emphasis on market forces, and further that Fund conditionality has a class character.

Convergence and differences between the Fund and the World Bank

It was maintained by some that the Bank exerted a conditionality of a different character than the Fund, but there were opposing views as to which institutions posed "the best" or the "least evil" conditionality from the point of view of borrowing countries. One view was that the Bank conditionality, superimposed on that of the Fund, was reaching down with such force into sectoral and institutional policies that it stood out as more pervasive and intrusive than the Fund's conditionality and as well as being sustained over longer time. (Loxley) Another view was that the Bank, due to its closer contacts with and better knowledge of borrowing countries' economies demanded conditionality more appropriate for development.

(Killick) There seemed to be general agreement, however, that it is the Fund that has the lead role. Loans from the Bank, rescheduling at the Paris Club and further aid from national donor agencies (among them the Nordic ones) are made conditional on a prior agreement between the country in question and the Fund. The Fund is still largely independent of the Bank, but it is not the other way around. (Killick) Yet Payer questioned this difference of character between the institutions, since they have the same leadership at the top. The case studies from Nigeria (Bangura) and Tanzania (Wangwe) show clearly that in situations when governments have political problems in dealing with the Fund, the Bank takes the lead role, and their adjustment proposals are then endorsed by the Fund.

It was argued that the blurring of responsibility between the two institutions had come about by a convergence in their operations, in particular since 1979/80. Then the Bank moved into policy lending (SECALs and SALs), a type of lending which encroached on the IMF lending sphere. The IMF on its side reoriented its lending in response to the needs of the borrowing countries (one view) or was forced to (another view) in order to avoid turmoil in international financial relations. The result was that a longer term view was adopted for making viable the balance of payments of most Sub-Saharan African countries. This convergence in operations and the fact that the real financial resources were shrinking, in particular on the part of the Fund, had led to an explosion of conditionality, making it more widespread, intense and penetrating. (Loxley, Stewart and Killick)

The legitimacy of conditionality

The point was made that conditionality in a sense is legitimate if seen as a substitute for a collateral. (Stewart) Thus conditionality is a price to be paid by borrowing countries for getting access to international resources. However, it was maintained that at present conditionality had extended beyond the balance of payment conditions, or could only be related to it by "elaborate or controversial reasoning". (Stewart) The Bank, however, would see conditionality linked to IDA funds more as a means to rationing of scarce resources, rather than collateral. (Gulhati) Other views expressed were that Fund conditionality is linked to the political attitudes of major Fund members, in particular the US. This, it was maintained, has had an impact on the character of conditionality posed to countries like the Sudan, Ivory Coast and South Africa in Africa, Portugal and Italy in Europe and Chile and Nicaragua in Latin-America.

The Fund and Bank relations to the borrowing country

There was uniform agreement that unless Fund and Bank programs are viewed to be appropriate by the borrowing government there will be a weak basis for its implementation and sustainability. The more programs are signed through arm twisting or under duress, the less successful they are likely to be. It was argued by Gulhati that the subject should not be looked upon in terms of conditionality, but in terms of policy agreements with the objective of building up commitments and convictions on the part of governments of the appropriateness of making such changes. An additional major problem obstructing the success of programs is the serious degree of underfunding in many program packages. (Goreux, Gulhati and Loxley) It was stated by many that the time has come for African and other countries' governments to take the initiative to design their own programs, and that the Fund and the Bank should take a more positive attitude to this. Investigations have shown that those governments that knew best what policies to pursue had made the best results in negotiations with the Fund. (Killick) The experience of Tanzania during the early 1980s is, however, an example to the contrary. More recently, however, after an agreement between the Fund and Tanzania was reached (August 1986), the Bank has shown an increased willingness to cooperate with Tanzanian authorities on various studies that are aiming to provide a better understanding of the domestic environment in which conditionality is operating. However, before the results of such studies are out, the Bank is nevertheless pressing for further devaluation and more liberalisation of imports. Also the Bank demands that a larger share of the credit flows should go to the private sector. (Wangwe)

Import liberalisation

Import liberalisation was one of the elements of conditionality most debated and on which there was diverging opinions. Payer, taking the example of India, stated that trade liberalisation was forced upon the country in order to open up its markets, and the effect had been to cripple its productive structure. Others contended that too little is known about the effects of import liberalisation. Thus before such knowledge is available, import regulations should be retained but improved. Important questions raised concerned how import liberalisation and reliance on market forces could enhance intra- and intersectoral linkages and indigenous technological development better than some regulatory devices. It was argued that there is a lack of empirical material to substantiate the pronounced links between conditionality and its effects. The response was that the emphasis on import liberalisation is not a quest to open up economies in some kind of conspiratory way, but that together with other measures it is a means to creating an incentive structure which is conducive to establishment of an efficient indutrial sector. Imports and balance of payments management in most African countries so far, has allowed a highly inefficient industrial sector to emerge. (Gulhati)

Exchange rate policies; devaluations and auctions

Conditionality linked to exchange rate policy was another topic discussed. There was little disagreement that exchange rates in general are grossly overvalued and that this constitutes one cause for the capital intensive imports and emergence of black markets and corruption. There was, however, disagreement about the central role of devaluation in adjustment packages in particular when countries are forced to carry out devaluations of large size in one go. Such economistic first best solutions completely ignore the impact of political and social character. And often they are accompanied by abolishment of food subsidies which intensify these effects. The introduction of auctions to promote an "efficient" distribution of scarce foreign exchange seems to have obstructed attainment of important economic goals. In Zambia for instance, auctions have effectively barred a small industry and peasant farmers from access to foreign exchange, thus impeding the objective of diversifying the economy from its reliance on copper. (Ncube) And further, the policy measures instituted in connection with the auction system, have led to a drastic increase of imports to Zambia from South Africa. In Nigeria as well, the auction system has systematically favoured big business. But the proponents of reliance on market forces and auctioning have not been prepared to accept its consequences. The Bank of Nigeria has intervened systematically in the auctioning in order to limit the range within which the naira is allowed to move. (Bangura) Presenting the case of the Sudan, Faaland argued that the excessive focus on the exchange rate policies by the Fund and the Bank is rather irrelevant. There were several other and more important policy areas to address, and in particular those which related to the enhancement of an integrated development.

The class nature of conditionality

The class nature of conditionality was analysed both in the Indian and Nigerian case studies. (Payer and Bangura) They argued that adjustment packages were systematically favouring some sections or class factions while depressing the living conditions of the majority of the population. In Nigeria it had gone so far, that there was hardly any support for an IMF agreement, except from big international business quarters. Thus the Bank had to come forward to take the lead in the negotiations and adjustment. (Bangura) One statement claimed that what appeared to be the class character of conditionality was rather originating from the strong reliance by the Fund, in particular, on neo-classical, monetarist policies. Goreux argued that Fund programs in general try to improve the terms of trade or rural areas versus towns by increasing agricultural producer prices in real terms. Successful implementation of programs should imply that conditions in rural areas, where most of the African population live, improve. There seemed to be some understanding for the relevance of class analysis, but strong disagreement as to the outcome when applying it. Maybe more work is needed in defining and understanding classes in the African context.

Income distribution and national sovereignty

The income distribution effects of conditionality was a topic closely connected with that of class nature and as well the issue of national sovereignty. Devaluation, removal of food subsidies, spending cuts etc, it was maintained, have damaging effects on income distribution, in the sense that the poorest and most vulnerable groups are severely hit. The Fund, on its side, maintains that the income distribution effects of its adjustments programs are less damaging than practical alternatives, or non-program adjustment. If Fund programs do have negative effects, it is the sole responsibility of the sovereign government in question. If requested, however, the Fund is prepared to assist in tracing the adverse effects of programs and, within its competence, advice on how to alleviate these effects. The Fund, however, cannot interfere and enforce a certain pattern of income distribution. That would be interference in the national sovereignty of a country (Lundström referring to statements by the previous general manager of the Fund, Larosière).

The response to this was that the present character of conditionality already implies a gross violation of national sovereignty. It is not, as often stated by the Fund, that a country is free to accept or reject an agreement for adjustment. Most countries are in a position where they cannot choose, but have to accept the Fund's conditions. Thus, in this perspective, the Fund and the Bank must take more responsibility, at least for identifying the negative effects on the most vulnerable groups. The Fund has over recent years accommodated this view and is increasingly cooperating with other UN agencies, in particular UNICEF, in order to come up with measures for identifying and alleviating such effects. In this respect, Stewart argues for the need to employ meso-policies which concern the impact of all policy instruments on the distribution of resources and income. Consistent use of such policies can ensure that growth and poverty-alleviation are given priority. This would require, however, a much broader and more reliable statistical basis than what is available in most African countries today.

The effects of conditionality

Stewart, in her paper, states that scattered empirical evidence suggests that many countries with Fund programs in the 1980s experienced contraction in per capita income, rising unemployment, rising urban poverty, reduced government expenditure per head of the population, rising malnutrition among children, stagnant or falling levels of real investment and that there was no improvement, but in some cases deterioration, in the current account of the balance of payments. Stewart argues that the facts do not prove that things would be better without Fund conditionality, but the findings clearly show that developments associated with the conditionality of the 1980s were extremely unsatisfactory.

Alternative conditionality and financial and institutional changes

The present situation hence demands the generation of new ideas, new priorities and new policies. Thus both in the introduction to and the discussions during the conference, the theme of alternative conditionality was taken up. The important point was made, however, that alternative, improved conditionality will, to be effective, require changes in the international system. Maybe the most important of these is to shift the burden of adjustment, which is solely carried by poor, deficit countries, to surplus countries in the industrialised world.

Some of the elements of alternative conditionality put forward are mentioned below:

- The need for an alternative, theoretical framework. The neo-classical, monetarist philosophy of international financial institutions is not proven, neither theoretically nor empirically.
- Conditionality must be country specific and social and political realities must be incorporated in the programs.
- Short-term policy changes must be consistent with medium- and long-term development requirements.
- Meso-policies should be employed within macro-policy frameworks in order to ensure growth and protection of vulnerable groups.
- Conditionality should focus on improving intra- and intersectoral linkages and the enhancement of indigenous technological development.
- Sectoral policies should be formulated to restructure productive sectors through strengthening employment and income-generation and raise productivity in low-income activities.
- The social sector must be restructured in order to increase its equity and efficiency. Public expenditures must be directed towards low-cost services and growth promotion.
- The aggregate effect of adjustment programs on the terms of trade must not be overlooked. The strong emphasis on primary production exports contained in most programs for African countries, has led to increasing production, falling prices and hence adverse terms of trade.
- Policy instruments must be compatible in relation to basic objectives. For instance, the case of Zambia shows that the objective of diversification of

the economy cannot be enhanced by employing an auctioning system for foreign exchange.

Regarding institutional and financial aspects, it was proposed that:

- Improvement might come about by merging the functions of the two institutions, however, it is important that the Fund is merged into the Bank. Most of the initial functions of the Fund have fallen away or have been removed, and the Bank is better designed to deal with more longer term, structural problems.
- The modality of negotiations should change. Effective programs require that governments see them as their own.
- Link further expansion of SDR with development finance needs. This could play a role in the settlement of debts and provide developing countries with needed capital.

The Nordic position

In his introduction, Knud Erik Svendsen argued that the Nordic countries had tried to develop a common profile in relation to LDCs, but that there are still major differences between various policy areas. On subjects such as aid- and broader policies, the UN, the role of UN agencies and the New International Economic Order (NIEO), the Nordic countries are considered to be forerunners on a common platform. Regarding foreign policy, there are differences as to individual country support. On the IMF and the World Bank the Nordic countries have kept a low profile, both internationally and at home. There seems to be a problem, however, of reconciling the Nordic countries' strong support for a so-called mini-NIEO (extending relations between the Nordic countries and Southern Africa) and the low key support for Bank and Fund policies. It seems that the policy interest in the IMF is particularly limited.

Svendsen maintained that the debt strategy of the IMF has failed, in the sense that it has placed nearly the whole burden of adjustment on the poor, debtor countries. His analysis of why the Nordic countries have not taken any initiative as members of the Fund to correct its policy, identifies two major elements. First there is a faulty conception of the nature of the debt problem and secondly the Nordic countries have problems of understanding their own paradigm. The capacity for analysis, in particular of international economics and macro-economics is limited even on a Nordic basis combined. The effect has been that the Nordic countries have been too easily impressed by US leadership. Even the attempt to take initiatives in March 1986 through a joint Nordic Finance Ministers statement, represents little improvement. Here it is stated that the Nordic countries see no reason for changing the present guidelines on Fund conditionality. The Bank is, however, looked upon as a better instrument to promote growth, hence there is the desire to make the Bank an equal partner to the Fund. The sympathy for the Bank also lies in its focus on the poorer sections of the developing countries, to which IDA funds are disbursed.

Korpinen gave a series of examples where Nordic leadership in the Bank could have been taken, but did not materialise because of low profile, lack of courage or knowledge.

The present Nordic Executive Directors of the Fund and the Bank, however, stated in their interventions that the Nordic countries have taken important initiatives in both institutions. In particular, reference is made to the Nordic proposal that the effects of adjustment programs on income distribution shall be investigated and measures taken to correct damaging effects on the most vulnerable groups. (Lundström and Haxthausen) Both institutions have in principle agreed to these proposals.

The reason for the low profile and rather passive attitude taken by the Nordic countries in these institutions, was explained by Korpinen by referring to the organisational structures handling these policy areas. Bank policies are mainly dealt with by Foreign Ministries, while IMF policies are usually the responsibility of Central Banks. Differences in priorities, attitudes and framework of the responsible institutions have hindered coordinated national policies in this area, and allowed a situation where different government institutions pursue different "foreign policies". This, coupled with a limited capacity for analysis, may explain some of the present unwillingness of the Nordic countries to push new policy initiatives in these international institutions, initiatives which are so necessary for improving the conditions of the majority of the population of the Sub-Saharan African countries.

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2. Reflections on the IMF/World Bank Relationship

*Tony Killick**

In his introduction Tony Killick focused on the history of the IMF/Bank relationship, the increasing degree of overlap between the two institutions in the recent years, the conditionality explosion and its implications, including cross conditionality and the differences between these institutions.

At Bretton Woods in 1944 there was a fairly clear idea of the division of labour between the two institutions. John Meynard Keynes then argued that the Board of the Fund should be composed by cautious bankers and that of the Bank by imaginative expansionists.

The role of the Fund was envisaged to supply temporary assistance to strengthen the balance of payments of member countries. Policy conditionality was related to a small number of variables related to demand management and the exchange rate. An important distinction was made that it was the Fund and not the Bank that was to deal with exchange rate matters.

The Bank was intended to focus on long term project lending, mainly directed to infrastructure. The Bank was not, at least initially, thought of getting into conditionality as such, except in cases where it related to specific projects.

Implicit in the division of labour was also a geographic division. The Fund was not expected to be dealing primarily with Less Developed Countries (LDC), and it was not designed as an agency whose policy was intended to tackle the particular type of balance of payments problems which are now associated with LDCs. The Bank was set up to deal with reconstruction after the second World War and to assist developing countries.

During the 1950s and 1960s and up to the early 1970s there was no major overlap in the activities of the two institutions.

*Editor's summary of Killick's verbal presentation, approved by Killick.

Then in 1974 the Fund introduced a new policy instrument, the Extended Fund Facility (EFF) under which a Fund program could last up to three rather than one year, in response to longer term adjustment needs. The fixed exchange rate system had broken down in the early 1970s as well and the Fund had largely ceased lending to industrialised countries. The Fund was now facing developing countries as their major customers. The introduction of the EFF also marked a shift towards supply side conditionality without, however, scrapping the conventional demand managment criteria. The EFF has scarcely been used since 1982/83, but its influence still lingers on within the Fund. A lot more supply side conditionality is attached to standby arrangement and their subsequent stabilisation programs than was formerly the case.

A major redirection in Bank lending came in 1979 when Structural Adjustment Loans (SALs) and other forms of policy related lending were introduced. This was a response to a need, to fill the existing gap between short term balance of payment support by the Fund and medium and long term project lending by the Bank. None of the institutions could supply assistance to countries in need of medium- to long term balance of payment adjustments.

Movement towards convergence between the two institutions hence was caused by a change of clientele of the Fund and the redirection in Bank lending into areas close to that of the Fund.

The next major initiative, the Baker plan, was put forward in 1985. This called for adjustment with growth. The Structural Adjustment Facility (SAF) of the Fund was established and specifically designed to be jointly managed by the Fund and the Bank. This thrust the two institutions closer together and raised the question of their relative roles.

The Baker plan reflected dissatisfaction on the part of the US by the lack of growth orientation of the Fund, and hence it wanted to promote the role of the Bank vis-à-vis the Fund.

The above developments have led to a current situation with a large degree of overlap between the institutions which questions their original division of labour. There is a need for a more up-to-date division of functions which correspond to changes in the world economy.

However, one should not exaggerate the extent of convergence between the Fund and the Bank. The Fund still retains a series of activities which is outside the sphere of the Bank, like surveillance of exchange rate policies, oversight of international liquidity, issuance and administration of the SDR and oversight of trade and payment restrictions. And still 80% of the Bank lending is of project type, with a ceiling fixed for policy related Bank lending to 20% of total lending.

The effect of the trend towards convergence has been a conditionality explosion. There is presently more policy conditionality around, it is more intense and is of a wider range. The cause for this is the move of the Bank into policy related lending through the SALs, and sectoral loans which carry similar conditions. In addition the Fund has increasingly added supply side to the conventional demand side conditionality. There has also been a movement in both institutions towards pre-conditions, for instance in terms of exchange rate adjustments etc.

Further, the Fund has experienced a sharp fall in its financial sources. The CFF has shrunk in real terms and in addition more conditionality has been attached to it. The real value of the quotas has been eroded such that the real values of the 1st and 2nd tranches (with zero or low conditionality) have also declined. The SDR, a no-conditional source, has been frozen on insistence by the US and European Fund members. Thus at present it does not represent a new source of foreign exchange for LDCs.

The net effect has been an intense increase in high conditionality. There has been a tendency for bilateral donors to follow this trend towards conditionality, some riding the back of the Fund and the Bank, others pursuing it more actively, like for instance the US. An increasing number of the debt negotiations also depend upon prior conclusion of a program with the Fund or the Bank. The result is that macro-economic policies in African countries are strongly influenced by the IMF.

Killick went on to raise the question what could be expected of conditionality. He was concerned about building up expectations through the use of conditionality which could not be fulfilled. The reason is that insufficient knowledge is available about the dynamics of the adjustment process, and the links between policies and their effects. There is also an unfavourable world economic environment in which conditionality operates. One reason for this is the limited staff of the Bank and the Fund which cannot be compensated for by high confidence and good will. In a hostile environment most programs will be likely to fail, because policy instruments cannot cope for instance with developments in terms of trade. There is also the issue of conflicting objectives. The objectives of leaders and those of the borrowing governments are not necessarily the same, hence problems related to sovereignty will emerge.

Killick had the opinion that the Bank has been better than the Fund in responding to the LDCs needs. He felt that at this time it is of great importance that African governments seize their own opportunities to design their own programs. Investigations show that the governments who do best in negotiations with the Fund are those who know what they want to accomplish and how.

Regarding differences between the Fund and the Bank, they are still seen as important. This is partly related to their formal statutes and objectives which give them different roles and in addition different governing bodies. The governance of the Fund is more intensive than that of the Bank. The institutions have different approaches, different tempo of work, emphasise different policy variables etc. Killick thought it a major problem that the Fund has largely retained independence of the Bank, but not the other way around. The Fund is playing the lead role. Killick indicated that an improvement might come about by going back to a proposal which Keynes once rejected, to merge the functions of the two institutions. However, it was important to merge them so that the Fund was merged into the Bank. The case in favour of this is that most of the initial functions given to the Fund had either fallen away or had been taken away. Further that the Fund is not well designed to deal with more longer term, structural problems and there would in addition be efficiency gains in such a merger.

3.Should Conditionality Change?

Frances Stewart

INTRODUCTION

"Conditionality" is the term given to the conditions - generally relating to macro-economic policies - which countries have to meet to qualify for international loans. The term was initially used to describe the conditions associated with access to the International Monetary Fund (although the practice of imposing conditions on major loans or debt rescheduling preceded the existence of the Fund). "Conditionality" also applies to conditions associated with other international loans, including the Structural Adjustment Loans and Sectoral Loans of the World Bank.

In the discussions leading to Bretton Woods, and in the early years of the Bretton Woods institutions, there was not agreement on the need for conditions to be associated with access to Fund resources. However, in 1952 (under the influence of the US), it was agreed that access would depend on "whether the policies a member will pursue will be adequate to overcome the problem within such (i.e. temporary) period". (Horsefield, ed. Vol. 2, 1969:404, quoted in Dell 1981) From then on the standby arrangement "was developed as the main instrument for the conditionality applicable to drawings beyond the first credit tranche". (Dell, 1981:11) (It is interesting to note that political conditionality also occurred. In 1956, the US threatened to stop the UK IMF loan unless there was a cease-fire in the Middle East - *The Times,* January 1st, 1987). In 1956, drawings on stand-by credits were authorised in stages, with the release of later stages depending on fulfilment of performance criteria. In 1958, a drawing by Paraguay was made explicitly conditional on a ceiling on credit, on budget expenditure and on public works programmes. Conditionality was formally incorporated into the Articles of Agreement of the Fund in 1969. Since then it has formed an essential aspect of all access to Fund resources beyond the first credit tranche. Many of the broad characteristics of the conditions have remained the same, but their severity has varied over the years.

During the late 1970s and early 1980s, conditionality has become very much important for economic policy making the Third World countries, being a critical and often dominant factor in about two-thirds of countries in Sub-Saharan Africa and Latin America (and a much smaller proportion in Asia); and indirectly influencing policies in many other countries. Its growing importance is due to three factors. First, an acute foreign exchange crisis developed in large numbers of countries in the 1980s, leading to a big rise in the number of countries having Fund programmes. During the 1970s, on average 10 countries initiated programmes each year; the number rose to 28 in 1980, 31 in 1981, 33 in 1983, and was 20 in 1984 and 26 in 1985. Throughout the first five years of the 1980s, over 40 countries had programmes in effect for at least one month in every year. Secondly, there was a marked rise in the proportion of "high conditionality" facilities, which formed about one-quarter to one-third of IMF lending in the 1970s, rising to over three-quarters in the 1980s. World Bank Structural Adjustment Loans were initiated at this time, and Sectoral Loans (SALs) greatly increased, so that these "conditional" facilities accounted for approximately 20% of World Bank loans. Thirdly, "cross-conditionality" developed with lending from the World Bank for SALs, rescheduling of Official Bilateral Loans through the Paris Club, and rescheduling new loans from the private banking system, frequently being dependent on countries having an agreement with the IMF. Consequently, much more now hangs on reaching an agreement with the Fund, and meeting the conditions, than simply Fund finance (which for many countries only provides a small proportion of their needs).

Since conditionality has so much influence on international financial flows and Third World policy-making, it is vital to assess whether this influence has been exerted in the best interest of individual countries, and also of the world economy. Given the dominance of the IMF in this area, the discussion will be mainly confined to Fund-conditionality. The next section of this paper briefly reviews aspects of conditionality in the 1980s, and developments in countries experiencing conditionality. The critical question, however, is not what actually happened, but whether preferable alternatives could be developed. This question forms the basic theme of the third section of the paper.

CONDITIONALITY IN THE 1980S

It is impossible, here, to provide a full, thorough and fair assessment of Fund programmes in the 1980s. A large number of books, articles etc. were written about the events of the 1970s without coming to agreed or definitive conclusions. (See e.g. Killick 1984 and references contained there) Conditionality in the 1980s is more difficult to assess because of the sharply deteriorating external environment for many countries (e.g. worsening commodity prices, which meant that some programmes failed to correct imbalances because of this, rather than intrinsic deficiencies of the programme). Moreover, the data is still partial for the first five years of the decade. Aside from these factors, there is the fundamental problem associated with any assessment - the issue of what would have happened in the absence of the programme, i.e. the counterfactual, or the alternatives. Precise agreement on what actually happened may be accompanied by radical disagreement on the assessment, according to the assumptions made about the counterfactual.

For these reasons, this paper is not intended to provide a comprehensive assessment of the effects of conditionality in the 1980s: what it sets out to do is to provide a prima facie case for a search for improved alternatives. This case is based on analysis of the content and timing of Fund programmes, and a review of actual developments in many Third World countries experiencing conditionality. Taken together the analysis of these factors does not prove that countries would have been better off without the Fund programmes and conditionality. But it does point to a very undesirable state of affairs, with an urgent need for improvement from an economic, social and political perspective.

Broad Characteristics of Fund Programmes

There is a strong similarity in the nature of Fund programmes, as applied to different countries, in terms of their content, their duration and their method of negotiation, as well as their underlying philosophy.

(i) *Content:* Fund programmes are usually introduced at times of severe imbalance in the economies concerned. The imbalances, typically, are both on the external account (with large current account deficits in the balance of payments) and internally (with high rates on inflation and deficits in the domestic budget). The programmes agreed with the Fund are intended to correct these imbalances. To do so they use three types of policy: those primarily intended to restrain demand (i.e. through reduced government expenditure, limits on credit creation, increased taxation, and restraints on wages and public sector employment); those primarily intended to switch resources towards tradables (e.g. exchange rate devaluation; price reforms); and those intended to raise the medium and long term efficiency of the economy (e.g. financial reform; import liberalisation). World Bank conditions for SALs fall primarily into the last category, but as noted above, a prior agreement with the Fund is generally required.

Analysis of the programmes in the 1980s has shown that a universal and dominant characteristic of Fund programmes has been demand restraint, while most programmes also include the other two - supply - elements. (See Cornia, Chapter II in Cornia, Jolly and Stewart 1987)

(ii) *Time Horizon:* The heavy emphasis on demand restraint is partly due to the short time horizon of most programmes - typically 12 to 18 months. The Extended Fund Facility, which is normally for three years, has been used relatively infrequently in recent years. It should be noted that in the 1952 decision to endorse conditionality, the adjustment period was defined as 3-5 years - that is far longer than the normal standby. (Horsefield 1969) Since most supply-oriented measures take time to have significant effect, reduced demand, and so reduced expenditure on imports is necessary if programmes are to produce much improvement in the external accounts in the limited time period allowed.

(iii) *Negotiations:* Fund programmes are typically negotiated between the Fund and government officials from the country's Finance Ministry and Central Bank. This in part accounts for their heavy reliance on macro-policy instruments and their neglect of social and political dimensions. The negotiations are bilateral (i.e. independent parties, other countries and other international institutions are not involved) and usually secret.

(iv) *Philosophy:* The "philosophy" is the term used here to describe the set of beliefs about political economy and economic causality which lies behind every Fund programme - it could be described as the Fund's "paradigm" (which is largely shared by the World Bank). Although difficult to define precisely, this philosophy is probably the most important determinant of Fund programmes. The Fund's philosophy is broadly monetarist (for a long period the Fund explicitly adopted the "monetary" approach to the balance of payments, as expounded by Polak, then a leading member), and also (somewhat inconsistently because one instrument cannot control two variables) a monetarist view of inflation; the philosophy is laisser-faire, with a belief in prices, not controls, faith in the private sector, not the public (but the World Bank has been more explicit on this, as the issue is more in its territory), and in free trade, not protectionism. As a consequence of its strong and pervasive philosophy, the Fund is not only concerned with the objectives of policy, but takes a firm view about which policy instruments are preferable. Thus although the intentions of the Bretton Woods fathers were Keynesian, their offspring have turned out to be anti-Keynesian. Perhaps it is not suprising, then, that the Keynesian objectives have not been achieved.

Developments in programme countries

The scattered evidence suggests that many countries with Fund programmes in the 1980s experienced:

- contraction in per capita incomes. Thus per capita income fell in over 70% of IMF-assisted countries in Africa and Latin America (in Asia, in contrast, 83% had rising per capita incomes).
- rising unemployment. There were dramatic rises in urban unemployment in most Latin American countries during the 1980s - both among those with and those without Fund programmes.

- rising urban poverty, with falling employment and real wage-incomes, but less change in the situation of the rural poor (apart from the effects of drought).
- reduced government expenditure per head of the population, including expenditure on the social services and food subsidies. Real government consumption per head fell in 55% of African countries (1980-84) and 70% of Latin American countries. Such falls affected countries without programmes as well as those with programmes. For example, in Ghana government expenditure on health fell by 16%, per capita, 1979-1983 (before any Fund programme); in Malawi and the Sudan (which intermittently had programmes) it fell by 10%. In Latin America, there were cumulative falls in real per capita expenditure on health of over 40%, 1980–84, in Bolivia, Guatemala, Dominican Republic, and of between 15% and 40% in El Salvador, Chile, Barbados, Jamaica, Costa Rica, Honduras, Argentina and Uruguay - all countries which had Fund programmes during this period. Real expenditure on food subsidies per head fell in nine out of ten countries for which information has been collected, 8 of which had Fund programmes. (See Pinstrup-Andersen, Jaramillo and Stewart, Chapter III of Cornia, Jolly and Stewart 1987)
- rising malnutrition among children was recorded in a large number of African countries (many of which also suffered from acute drought), and also in several Latin American countries - Bolivia, Jamaica, parts of Brazil, Chile and Uruguay (all of which had Fund programmes at some time in the 1980s).
- stagnant or falling levels of real investment occurred in 60% of African countries with Fund programmes, and 58% of Latin American countries (1980-1983).
- there was no improvement - and in some cases deterioration - in the current account of the balance of payments in many countries with Fund programmes (40% of African Fund-assisted countries and 52% of Latin American, 1980-84).

In summary, after undergoing tough programmes, many countries found themselves with reduced real incomes, increased poverty, deteriorating social conditions, reduced growth potential and often with no significant improvement in their external accounts.

It must be emphasised that these negative developments have not been confined to countries with Fund programmes, and cannot be attributed to Fund conditionality as such, especially because the external environment worsened significantly over this period. Commodity prices deteriorated, there was a major world recession and subsequently world trade was sluggish, protectionism among the developed countries was rising, there was a virtual cessation of voluntary bank lending, and real interest rates remained very high. The facts do not prove that the situation would have been better without Fund conditionality - indeed it might have been worse. But the facts do show - unambiguously - that the developments associated with conditionality in the 1980s were highly unsatisfactory.

This is particularly evident in the experience of Sub-Saharan Africa. (See e.g. Green 1986, Helleiner 1983) Most countries in the region, at one point or another, had a Fund programme. Many had a succession, broken off as performance criteria were violated. From 1980-1985 the cumulative lending of the Fund to Sub-Saharan Africa was approximately US$ 4.6 b., which was due for repayment with interest in the second half of the decade. But the current account of the region has not improved over this period. It was minus US$ 7 b. both in 1980 and 1985, having worsened in the intervening years. This unchanged deficit occurred despite a substantial cut in imports of nearly 20% over the period, and falling per capita incomes in the majority of countries in the region. The stories of individual countries - e.g. Zambia, Zaire, the Sudan - illustrate the general pattern. There were some countries that were relatively successful - e.g. Zimbabwe, the Ivory Coast, and recently Ghana - but these countries remain in a precarious position, with large deficits and a foreign exchange shortage that threatens to undermine their growth potential. Africa also has examples of countries that did not have Fund programmes and fared at least as badly as those that did - Tanzania being the most notorious.

Looked at on the basis of the effects on individual countries, for the most part - despite heavy social costs - conditionality in the 1980s did not succeed in eliminating imbalances and restoring countries to a position of sustainable growth. The Fund programmes cover such a large part of the world, that they need, also, to be viewed in terms of their aggregate effects on the world economy. From this perspective they have imparted a strongly deflationary bias to the world economy because they have focussed on correcting deficits by deflation, rather than correcting surpluses by reflation. Moreover, commodity producers have each been encouraged to increase production (e.g. both Ghana and Ivory Coast have had programmes designed to increase cocoa production), which has led to an upward shift in production and downward pressure on prices. Given that demand elasticity is less than one for many commodities, the net effect may have been to decrease gross foreign exchange earnings from some commodities, despite increases in production (increases which involved foreign exchange and other costs). Consequently, looked at in terms of their aggregate effects, the programmes may have contributed to the worsening terms of trade suffered by primary producers, which were in turn partly responsible for the limited improvements in the current account balances of many Third World countries.

The rather sketchy evidence presented here - which is born out by more detailed case studies (see the subsequent chapters of this report and WIDER and UNCTAD studies) - therefore suggests that the achievements of the 1980s have not been in accord with the basic purposes of the IMF as laid down in Article 1 of the Articles of Agreement - viz.:

> to facilitate the expansion of balanced growth in international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

If social and economic progress is to be resumed, especially in Africa, and political cohesion encouraged, then it is vital to find alternatives to the present situation. The next section explores some alternatives.

ALTERNATIVE CONDITIONALITY

Assuming that the basic objective of conditionality is to bring about adjustments in the economies of countries in difficulties, which will correct the basic imbalances while maintaining output, restoring the conditions for sustainable growth, and protecting the basic needs of the poorest sections of the population, then it is abundantly clear that the present system of conditionality is unsatisfactory.

Some conditionality is, however, legitimate, and may be necessary. It is legitimate because lenders require some assurance that they will be repaid. Such assurance is provided by collateral in the case of loans to individuals or firms, and by project evaluation and supervision for project loans. Policy conditionality is a way of providing some assurance of repayment for international loans intended for balance of payments support, where there is no suitable (or available) collateral. However, it is worth noting that international loans to governments - both from the private sector, through banks and bonds, and from the IMF and the World Bank in earlier years - did not require policy conditionality, but secured their assurance of repayment from the general credibility and creditworthiness of individual governments. This credibility has been severely weakened recently as a result of the foreign exchange drought accompanying the debt crisis. Policy conditionality can, in part, be seen as a new method of ensuring repayment - from which perspective it is legitimate, and has to be accepted by individual countries as the price of securing access to international resources. But conditionality has extended considerably beyond this type of legitimacy. (See Stewart (1984) for elaboration of this argument) First, it now applies to more or less any country seeking Fund or World Bank programme finance, irrespective of the country's repayment record or prospects. Secondly, repayment-legitimacy extends only to conditions closely related to repayment prospects (i.e. to restoring the current and capital account of the balance of payments), and not to other objectives, such as inflation control or to the nature of the instruments used to achieve the balance of payments objective (e.g. whether import controls or tariffs are used). Yet every agreement with the Fund or World Bank contains elements that extend beyond the balance of payments condition, and can only be related to it by elaborate and controversial reasoning. Nonetheless, some conditionality related to the repayment condition is legitimate in the current circumstances, in which securing improvement in the balance of payments so as to assure repayment will often be difficult. It is important that countries should accept that some conditionality is legitimate as well as unavoidable. In the dramatic confrontations that have taken place between Third World governments and the IMF, the Third World governments seem to have been denying any role for conditionality, and this is one reason why they have been so unsuccessful in gaining access to finance, or in improving the conditions. The cases of Jamaica under Manley, and Tanzania in the late 1970s and early 1980s, are obvious examples.

Some macro-policy change and economic adjustment are normally necessary for countries suffering severe imbalances, irrespective of whether the origin of the imbalance lies in domestic policies or external changes, so long as the deterioration in circumstances is likely to be long-lasting and/or cannot be financed. Given the general deterioration in the economic environment in recent years - mainly of external origin, with the fall in commodity prices, the rising debt burden, the collapse of private lending, which have made it more difficult to achieve balance in the trade account and also more difficult to finance imbalances - the majority of Third World countries need to make some policy changes to achieve the economic adjustments that have become necessary. Without any policy change, countries would, typically, run up huge debts, if finance were forthcoming, but in these circumstances finance would rapidly dry up, and countries would be forced to adjust in one way or another. In the 1970s finance was abundant and countries were able to avoid adjustment by borrowing. This is not an option today, and countries which avoid undertaking formal adjustments, are forced into de facto adjustments, which tends to produce stagnation and prolonged crisis - the case of Tanzania is an example.

Although some macro-policy change is normally necessary, it does not follow that conditionality, of the sort pursued, is the right way to bring it about - not only because of the content of the programmes, which will be discussed later, but because of the politics of adjustment. For any programme to be effective governments must have a genuine commitment to it, and this may not be achieved, and may even be countered, through the process of conditionality. In the early years of the Fund, when most loans were to industrialised countries, it was assumed that it could be left to responsible governments to undertake the adjustments necessary, with outside advice if requested. It should not be assumed unquestionningly that this approach would be unworkable today, particularly in the light of the highly "responsible" debt repayment record of most countries. The need to improve the process of bringing about policy change will be discussed further below.

In summary, it appears (with qualifications) that some macro-policy conditionality is both legitimate and necessary for countries in severe imbalance. The question then is what type of conditionality would be preferable to the present system. However, to put the issue in this way is to limit that area of change considered too narrowly. Broader changes are needed in the world economy, in the symmetry of the adjustment process and in flows of finance, so that conditionality can be set in a reasonable context. Without any such changes, some limited improvements in conditionality could be realised. But the main problem would be side-stepped - which is that the current international system imposes impossible demands on poor countries, thus putting conditionality into a straitjacket, where - for some countries - it may be impossible to devise conditions that meet all the objectives suggested above. The situation is like finding people on a mountain in a winter storm, and trying to devise methods (conditions) to keep them warm. Careful use of available resources could improve the situation (newspapers, huddling together etc.) and if the storm is likely to be shortlived that may be the most appropriate solution. But if the storm is expected to last several months, then what is needed is to move the people out of the storm, and without this more radical change, the conditionality will merely prolong suffering.

Changes in the international system

1. *Symmetry of adjustment:* all Third World countries suffer from the asymmetry in adjustment - i.e. that the major burden of policy change and adjustment is imposed on deficit countries. In recent years, the U.S. has been a notable exception, being able to finance its huge deficit, and also to promote the need for policy change and adjustment in surplus countries, especially Japan and West Germany. This has had some effect in exchange rate and trade policy of Japan, but the huge surpluses remain. If major responsibility were accepted by surplus countries to expand their domestic absorption, this would help eliminate deficits without requiring such large and deflationary policy changes among debtor countries, and would tend to raise world trade, growth and commodity prices.

2. *Expansion of world demand and trade:* adjustment with growth requires that countries are able to expand their export earnings, so that they do not have to rely on cutting imports (and therefore output and investment) to achieve improved trade balances. Export expansion, however, is only possible with increased demand for exports, as well as increased supply of tradables. Improved supply and prices (achieved through devaluation and other price measures) may increase a country's share of world markets. But none of the measures are designed to increase total demand for developing country exports. Additional exports would be absorbed with a sufficient rise in world output and demand. But sluggish growth in world output and rising protectionism in the 1980s accentuated the low income elasticities associated with developing country exports, especially primary commodities. Individual countries could, nonetheless, succeed in expanding exports by increasing their share. Collectively, however, adjustment through export expansion requires an adequate and sustained growth in world demand. This is the single most important factor making successful growth-oriented adjustment among deficit countries possible. This is not the place for a full discussion on the changes necessary to produce sustained growth in world demand. They include (i) a sustained growth in world output. This would be helped by more symmetrical adjustment between surplus and deficit countries (described above); by more Keynesian policies in individual countries and in the world as a whole; and, probably, by more policy coordination among developed countries; (ii) reduction of trade barriers so that developing countries may secure a larger share of world markets.

3. *Support for commodity prices:* expanded world output and trade would help sustain commodity prices and could make commodity price agreements unnecessary. But with uncertain prospects for world commodity demand and policies devoted to securing large increases in supply, commodity prices are likely to continue to fall without commodity price agreements. Such agreements should involve a floor price, and should be supported by coordination (limiting growth when necessary) in supply among primary product producers.

4. *Finance:* the changes described above would reduce the extent of adjustment needed by deficit countries (by increasing the price and earnings from their exports) and facilitate its occurrence (by improving their markets). But changes in supply take time to have effect. Expansionary and growth-oriented adjustment typically requires increases in imports for investment and for other essential inputs into the productive process. In contrast, deflationary adjustment involving cuts in output and imports can have immediate effect on the balance of trade. Therefore, expansionary adjustment requires more finance than deflationary adjustment. Indeed, in many countries, lack of finance is the basic cause of the deflationary policies

adopted, and is also undermining growth prospects, by forcing cuts in investment and in maintenance, and even preventing short term expansion of exports, because of constraints on essential imported inputs. For example, in Zambia copper exports are being reduced because of lack of foreign exchange for essential equipment and parts, while in Tanzania shortage of import finance is resulting in the debilitation of the transport system and extreme shortages of incentive-consumer goods, with the result of continued stagnation in the production of export crops. In these countries lack of finance leads to a downward spiral of disequilibrium - with shortage of foreign exchange resulting in falls in export production, and this in turn accentuating the foreign exchange crisis.

Medium and long run growth prospects are undermined by the prevalent cuts in human capital as the deflationary programmes lead to reduced expenditures on health and education, and short- and long-term human capacities are reduced by rising levels of malnutrition.

Substantially more and more medium term finance is essential for growth-oriented adjustment. The World Bank, making quite unrealistically optimistic calculations, based on the hypothesis of an annual increase in export earnings of 10% p.a. in Sub-Saharan Africa for the rest of the decade, estimated a foreign exchange gap of US$2.5 billion (for low income countries). The true gap in Africa is much greater, the extent depending in part on how far the other changes in the international economy noted above, which would increase potential exports are realised. In Latin America too - as recognised in the Baker plan for growth-oriented adjustment - substantial additional finance is essential if countries are to be able to meet the objectives of adjustment and growth and fulfill their debt servicing obligations. Brazil has succeeded, more-or-less, in achieving these objectives (turning a large trade deficit into a surplus, and growing, while making huge debt servicing payments), but investment has been held down because of the shortage of finance, so that further growth prospects are being impaired.

What is needed is additional net transfer of funds, taking into account new inflows and outflows for amortisation and interest. Additional net transfer can be achieved therefore by slowing down outflows for debt servicing, as a result of lower interest rates, or through debt rescheduling. The smaller the new inflows from aid and/or commercial sources, the more likely the additional net transfer will have to come from renegotiation (or unilateral moratoria) of payments on existing debt.

The extent of financial needs depends partly on how far other changes occur - with better commodity prices and better markets less finance would be necessary. Consequently, the financial system should be designed to compensate for failures in the rest of the system - e.g. by issuing more SDRs or increasing the size of IMF quotas when commodity prices are adverse, and reversing this when they improve. The Compensatory Financing Facility, as initially developed, acted in this way providing low-conditionality finance if problems were caused by falling commodity prices. The recent IMF agreement with Mexico provides an alternative model, promising more (not as is more usual, less) finance if oil prices fall below some specified level, or if growth falters below a special rate. There is a need for development of financial buffering mechanisms, of this type, on a systematic basis.

Changes in conditionality

To recap briefly, changes are needed in conditionality because in recent years conditionality has been accompanied by falling per capita incomes, rising unemployment and impoverishment, falling welfare of vulnerable groups, including especially the children of the poorest 40% of the population, and reduced growth prospects, as growth in physical and human capital has been slowed or reversed. Moreover, in Africa especially, the changes have pushed the economies into further dependence on primary commodities. The aim in developing alternatives is to reverse these negative trends - that is to achieve restructuring and reduced imbalances while maintaining the incomes of the poorest, protecting social welfare and promoting the conditions for medium term growth.

How far it is possible to achieve these aims - in all countries simultaneously - depends in part on how far the general international environment changes in the directions just described. Conditionality cannot be defined independently of the international environment. Some of the changes necessary may not be possible - for all countries taken together - without some of these changes in the international environment; others could occur independently, for some countries; and some could apply to all countries, without changing the environment, because they basically consist in reorientation of domestic resource use.

Appropriate conditionality is also country-specific, depending on the country's economic, social and political situation, prospects and constraints. Therefore, while it is possible to point to the direction of changes likely to be needed in most cases, any actual country programme requires in-depth knowledge of country circumstances. This should be born in mind as a basic qualification to the list of requirements noted below.

To achieve the aims of growth and protection of the vulnerable during adjustment, the type of changes in adjustment policies and conditionality needed include:

1. There is a need for a more open and less dogmatic view of the underlying philosophy of the workings of the economy, causal mechanisms and

consequently the desirability of particular policy instruments and institutions. The prevalent philosophy in the international financial institutions - broadly neo-classical and monetarist, laisser-faire and anti-state - is not proven theoretically or empirically. Certainly, as indicated above, its recent achievements have not been spectacular. The search for a better alternative will certainly be impeded (possibly stopped even before it has begun), and progress towards programmes which are jointly initiated and developed, rather than imposed, will be limited, unless a more open, flexible and empirical view is adopted by all parties.

2. Social and political realities need to be incorporated into the design of the programme. Economists' first best solutions may need to be discarded (e.g. large devaluations or elimination of consumer subsidies) to avoid political unrest and disruption of the programme, and to provide a longer lasting solution. The long list of abandoned agreements, of civil unrest and of political upheaval, following tough "first-best" programmes attests to the necessity for more sensitive programme design.

3. More expansionary (or less deflationary) macro-policies. How far this is achievable is partly dependent on the availability of external finance, but even within a given financial constraint, more expansion is possible with greater concentration on import-substitution and low-import-coefficient sectors.

4. More gradual timing of adjustment (which also requires more medium term finance).

5. Design of short-term policy changes to be consistent with medium-term development requirements. In Sub-Saharan Africa the present conditionality is mostly focussed on agriculture and is broadly deindustrialising. For the medium to long-term, the industrial sector must play an important role in providing simple consumption and investment goods for domestic use, for export to the region, and eventually for world markets. The prospects for continued reliance on primary commodities are bleak. Therefore current conditions should permit the build up of industry in an efficient direction, and encourage rural industry, regional industrialisation and trade, and creation of industries which may subsequently serve world markets.

6. The use of meso-policies, within any given macro-policy framework, to induce the priority use of resources for economic growth and to meet the needs of the vulnerable. Meso-policies concern the impact of all policy instruments, including taxation, government expenditure, tariffs and foreign exchange allocations, and credit policies, on the distribution of resources and of income. Resource-uses and the distribution of goods and services to different categories of household, need to be categorised into priorities, and all meso-policies used consistently to ensure that growth and poverty-alleviation uses are given priority. The normal macro-conditionality package

focuses only on macro-aggregates leaving their distribution to be determined by the normal political and economic system. This often means that macro-constraints lead to the elimination of priority expenditures (e.g. critical investments or social expenditure on immunisation), even though this is not a necessary consequence and could be avoided by careful use of meso-policies along with the macro-changes.

7. Sectoral policies to restructure the productive sector to strengthen employment and income-generation and raise productivity in low-income activities, focussing in particular on small-farmers and informal sector producers in industries and services.

8. Policies aimed at restructuring the social sector to increase its equity and efficiency, redirecting public expenditure both between and within sectors towards low-cost basic services and growth-promotion.

9. Compensatory policies (of limited duration) to protect basic health and nutrition during adjustment, until growth resumption permits low-income households to meet their basic needs independently. These programmes include employment creation schemes and nutrition support for the most deprived.

10. Monitoring needs to be broadened from monetary targets to include economic growth performance (output growth and investment levels) and social indicators (incomes of the poorest 40%, nutrition levels).

These changes are not just theoretical possibilities: each has been adopted in some country or countries in recent years with success. For example, South Korea, Botswana and Zimbabwe have all shown considerable success in achieving adjustment while protecting the vulnerable in society and restoring growth at times of considerable economic or climatic adversity. In each, many of the policies suggested above were used. (See Cornia, Jolly and Stewart 1987, Vol. One and Two for details and further examples)

Modalities of arriving at conditionality

The present system for reaching agreement on conditionality has major defects, especially for smaller countries. First, it is often confrontational, with negotiations between large highly sophisticated international institutions and governments from small countries. The Fund tends to present a package on a take-it or leave-it basis. Both Fund and World Bank have a wealth of skilled and well educated people to argue their case. Government officials may intuitively reject some aspects, but may be unable to present their case with rigour, and to provide the intellectual muscle or political bargaining necessary to win the argument. For the Fund or Bank, little is lost in small countries by delaying agreement, while the costs to the country can be very great. Discussions on procedures generally suggest satisfaction on both sides, where large and/or economically sophisticated countries are concerned (e.g. India or Sri Lanka), in complete contrast to the desperation and sometimes almost total surrender of economic decision-making among some smaller and weaker countries. Changes in modalities are needed for the latter group especially because:

> Effective stabilisation and adjustment programmes require that the governments concerned regard them as 'their own'. Imposed programmes do not hold. (Helleiner, cited in Green 1986)

For all countries where programmes are felt to be imposed, which would account for, perhaps, all countries in Africa and most Latin American countries with the exceptions of those with major bargaining power (Argentina, Brazil and Mexico), the following changes are needed:

1. It should be explicitly recognised that alternatives to Fund/World Bank policies are often available and - where they can be expected to bring about adjustments of the sort needed - should be equally (or more, assuming they help meet other objectives) acceptable to the international community. Governments should be encouraged to devise their own adjustment package.
2. Governments should be given technical to assistance in the development and negotiation of alternatives. This assistance could come from other international institutions (e.g. the Commonwealth Secretariat, or parts of the United Nations), or a specially established Advisory Group.
3. Some collective discussions among recipient governments (e.g. on a regional basis) should be initiated, where experiences and ideas can be exchanged and joint positions considered.
4. Independent commissions could be established, at the request of governments, consisting of country officials, independent experts and people from international institutions, to develop short and medium-term programmes, and to estimate and plan for financial needs. (See Ranis 1984) It would be agreed by both sides that the Reports of these Commissions would form the basis for future conditionality and for planning financial flows.

The second major defect of present negotiations is that they are almost entirely confined to officials from the Central Bank and Finance Ministry, on the part of governments, and to the IMF, on the part of the international community. Naturally, then, economic growth and social welfare tends to be neglected, and financial stability to be given precedence. This will persist unless representatives of these interests are incorporated into design and negotiation of programmes. On the side of governments, this requires that Ministries of Planning and Development and representatives from Ministries concerned with education, health and nutrition are involved, with a similar widening on the international side. So long as programme design, negotiations and monitoring are confined to the financial institutions, the present type of conditionality is unlikely to change.

SUMMARY AND CONCLUSIONS

There was a highly unsatisfactory situation in relation to conditionality and adjustment in the first half of this decade. Countries which undertook adjustment programmes often experienced rising poverty and malnutrition and weakening growth prospects, while in many cases the basic imbalances persisted. Although these developments should not be attributed to the programmes as such, and were also experienced by the countries without programmes, in the light of this experience it cannot be said that the current system of conditionality is performing well. Therefore there is a strong case for seeking alternatives which would permit adjustment to be combined with growth and the protection of the vulnerable.

In large part, the negative trends in developing countries derived from the very unfavourable external conditions over this period. For some countries, it will not be possible to improve conditionality sufficiently to meet the objectives without substantial improvement in this environment, and for all countries trying to devise conditionality in these unfavourable circumstances severely limits what is possible, requiring countries to adjust to what are becoming intolerable conditions. Consequently, a first priority is to change international conditions - especially with respect to international demand and trade, commodity prices and flows of finance. But within any given environment, some improvements can be made. The second part of the paper made some suggestions about the direction of change needed in the nature and content and also the modalities of conditionality. The objective is for countries to devise their own conditionality, reflecting their own objectives and political, social and economic circumstances.

If these improvements are to come about, countries have to accept the legitimacy of some conditionality, and the responsibility for devising alternative policy packages, while international institutions will have to accept that alternatives are desirable, possible and legitimate.

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4. The IMF, the World Bank, and Sub-Saharan Africa: Policies and Politics

John Loxley

External Leverage and Economic Policy Formulation in Sub-Saharan Africa (SSA)

As a result of the sustained economic crisis in Sub-Saharan Africa the vast majority of nations there have turned to the International Monetary Fund for balance of payments assistance and, in consequence, have had their economic policies shaped by IMF conditionality. Between 1980 and 1986 no fewer than 30 SSA nations entered into Standby or Extended Arrangements with the Fund representing three-quarters of the nations of this part of the continent; this included fully 25 out of the 29 low income (IDA-eligible) SSA countries. The influence of the IMF on economic policy formulation in SSA, therefore, has been very widespread.

Acceptance of a Fund program has become increasingly necessary to obtain other, potentially more substantial, forms of foreign assistance available to African countries. In particular, the rescheduling of annual debt servicing commitments (estimated at US$12 billion for 1986-87. World Bank 1986 a: 55) through the London or Paris Clubs will proceed only if an IMF agreement is in place, while a similar requirement is imposed as a general rule by the World Bank for access to Structural Adjustment Loans (SALs). Even then, the latter type of financial assistance carries with it another layer of policy conditionality superimposed on IMF conditionality but reaching down into the sectoral, institutional and more micro levels of the economies of borrowers. Even where IMF or SAL programs are not in place, the World Bank, one of the most important sources of foreign finance in SSA, is increasingly imposing conditionality through other forms of program, sector and even project financing. There is evidence, too, of bilateral donors beginning to exercise more overt policy leverage in an effort to make their (largely) project aid more effective. (Loxley 1986 a: 175-176)

Because of its relatively high dependence on external funding and because of the severity and protracted nature of the economic crisis in SSA, this part of the world is particularly vulnerable to externally-imposed policy leverage. Given the sharp increase in the absolute and relative current account balance of payment deficits of SSA in 1986 and the anticipation of these deficits continuing to rise into 1987 (IMF October 1986: 74-75) this vulnerability does not appear to be decreasing.

Although it can be argued that many SSA states are neo-colonial in nature and their economic options, therefore, always shaped to one degree or another by external influences, there is no historical precedent for the extent and degree of overt policy leverage now being exerted by multilateral agencies on African governments. In most cases, conditionality is accepted only grudgingly and there is widespread agreement among African governments that the terms of IMF loans are often harsh and inappropriate (see the view of various African representatives in Helleiner (ed.) 1986). Furthermore, there is little empirical evidence to support the view that IMF programs are effective in meeting their objectives in low income countries (Loxley 1984 a) while their record in SSA in the early 1980s was particularly dismal (Zulu and Nsouli 1984). As recently as last year the Fund itself "noted with concern that a significant number of program countries had not made satisfactory progress towards balance of payments viability" (IMF 1986: 44) which is, of course, the principal aim of the IMF conditionality. Among the reasons given for this were "problems relating to program design" although lack of determination in implementing policies and an "adverse economic environment since 1980" were also highlighted (Ibid). In spite of serious question marks about the desirability and appropriateness of IMF conditionality and in spite of reluctance on the part of some Board members, the Fund nevertheless went ahead and introduced yet another form of conditionality in 1986. This accompanies the new Structural Adjustment Facility (SAF) which is designed to provide concessional assistance to low income countries and which represents a belated recognition that solutions adopted in the early 1980s to the global crisis put a particularly harsh burden on the world's poorest countries. This facility requires borrowers to draw up three-year adjustment programs acceptable to both the Fund and the Bank (Ibid: 92-5). While the SAF does not appear to be wedded to Standby arrangements and, therefore, does not entail pinpoint targetry or rigidly-specified performance criteria, it must be emphasized that this facility uses funds recycled from the Trust Fund Loan scheme of the late 1970s which carried virtually no conditionality. It represents, at one and the same time therefore, both a heightening of conditionality (relative to the late 1970s) and a potential relaxing of conditionality (relative to 1981-85).

The question marks surrounding the appropriateness of World Bank conditionality are equally large, if not larger (Payer 1982; IDS, Sussex 1983). Bank conditionality is much more pervasive and intrusive than that of the IMF and is sustained over a longer period of time, although the two approaches are mutually reinforcing. Their objective is nothing less than a wholesale revamping of the regime of accumulation in debtor countries (Loxley 1984 b), altering in a fundamental way the strategy and 'modus operandi' of economic institutions, the distribution of income and the balance of class power. As such, this type of conditionality is particularly demanding. Only 10 SSA countries have qualified for SALs, participation being "limited by the quality and credibility of the programs with which governments propose to address their structural-adjustment problems, despite support from the Bank through analytical and technical advice". (World Bank 1985: 52) The Bank acknowledges, however, that earlier approaches to structural adjustment lending sometimes sought "overly broad coverage", tried to achieve "too much too soon" and were sometimes not based on a "realistic appraisal of a government's ability to manage profound reform". (Ibid: 54) It is not known if the SALs to four, low income SSA first-time borrowers in 1986 reflect a less demanding approach to conditionality, but it does appear that the Bank is beginning to rely more on sector-adjustment programs and reconstruction-import credits. (World Bank, 1986 a: 23 and 47) These are not necessarily tied to prior agreements with the IMF and, in addition, do not involve *comprehensive* economic reforms. They are, therefore, less demanding in a political sense.

It may be that at this point in time, therefore, low income SSA countries face the option of two separate financing packages (or individual components thereof) each with a different degree of conditionality. A relatively low conditional concessional financing package might entail an IMF-SAF loan coupled with an World Bank/IDA sector-adjustment credit or, (in special cases) a reconstruction-import credit, funded under the Special Facility for Sub-Saharan Africa. This would involve limited funding and may or may not carry sufficient conditionality to permit debt rescheduling through the London or Paris Clubs. Larger sums of money would be forthcoming in a second package entailing a less concessional IMF Standby or Extended Arrangement and an World Bank/IDA Structural Adjustment Loan. This would unquestionably guarantee debt-rescheduling but would also carry much more stringent conditionality. If the first option does indeed exist, and there is some doubt that IMF-SAF credits can, in practice, be drawn independently of a Standby arrangement, then it might prove to be a politically preferred option for many SSA countries and especially so if it unlocks the door to debt rescheduling or inflows of bilateral aid. Even so, it still involves a level of outside policy leverage that would have been thought unconscionable ten years ago, and the substantive *content* (though not the *degree*) of the policy conditionality involved is essentially the same as that implied in the second type of package, which has been the object of so much criticism in the recent past.

CONDITIONALITY AND NATIONAL SOVEREIGNTY

The multilateral institutions argue that their policy conditionality does not encroach on the national sovereignty of countries borrowing from them because, in the last analysis, members are not compelled to draw on IMF/World Bank funds nor to accept conditionality: they do so willingly *in exercise* of their sovereignty. This is evidenced by the fact of, often quite lengthy, negotiations in which conditionality is shaped to the needs of the borrower in question while, at the same time, ensuring the creation of conditions necessary for the servicing of the multilateral debts in subsequent years.

This benign view of conditionality overlooks the reality that in the midst of economic crisis, and especially of persistent crisis, the options facing would-be borrowers are extremely limited. The recent 'layering' of conditionality reduces options even further since leverage is now exercised, directly or indirectly, by almost all major sources of potential funding.

At the same time the ability of many SSA nations to say 'no' to conditional financing is constrained by the legacy of their colonial and post-colonial ties, through trade, aid, credits, military and technical assistance, to the world capitalist system. This structural dependence limits the freedom of manœuvre of member countries, setting clear boundaries on 'negotiations' with the multilateral institutions. Furthermore, both the Fund and the Bank readily admit that their general programmatic thrust is *not* open for negotiation, only the details of its application to specific country situations.

A decision to approach the IMF/World Bank for conditional assistance is, however, often taken only after some degree of political debate, if not turmoil, within the member country itself. Invariably, there are political forces both for and against such moves, each informed by differing views on the origin to deal with crisis and, where relevant, on an assessment of previous experience with conditional funding. There are many in SSA who believe that IMF/World Bank prescriptions *are* appropriate and a decision to request assistance may mean that such people have won the upper hand in the jostling for political power. Quite commonly, however, it is with great reluctance that this route is taken. These different circumstances will often determine the degree of commitment government has to actually implementing programs.

Two other facets of the politics of conditionality, as they affect the national sovereignty of borrowing countries, need to be addressed. The first is that, whatever the receptivity or otherwise of SSA countries to conditionality, the degree to which, the speed with which and the manner within which they are required to *adjust* to economic problems, is essentially out of their hands. It is the larger industrialized capitalist countries, and especially the USA, which decide the quantity of financial resources to be made available to the crisis-ridden Third World through the multilateral institutions; it is they who also decide the financial terms of and the conditionality attached to such assistance. In the past five years their approach has been to insist on substantial and rapid adjustment accompanied by minimal financial assistance. Only grudgingly, as monetarist policies threatened the stability of their own banking systems and total chaos in the poorest countries, were special financial provisions made for larger debtors and, quite belatedly, for low income countries. Seen from this larger political perspective, the scope of national sovereignty is limited from the outset, whatever the political complexion of SSA member governments.

Secondly, within the given financial resource constraints of multilateral agencies as determined by the larger industrialized capitalist countries, the negotiations over the details of conditionality are not between parties of equal strength. Time, expertise, resources and experiences are heavily weighted in favour of the multilateral institutions. One might also add that there is often an unevenness of confidence and conviction; the multilaterals have an unwavering faith in the correctness of their general approach to adjustment, backed up ostensibly by a myriad of self-financed academic studies, while sceptical and hard-pressed would-be borrowers have difficulty formulating coherent alternatives.

While, there is, undoubtedly, much that can be done to improve the negotiating ability of SSA governments within the constraints outlined (Helleiner, May 1985), the balance of power lies and will continue to lie with the multilateral agencies as they are now constituted.

OTHER POLITICAL ASPECTS OF FINANCING AND ADJUSTMENT IN SSA

The details of conditionality attached to IMF and World Bank loans vary from loan to loan in accordance with the precise nature of the problems facing specific borrowers and the perceived need for adjustment. Nevertheless, they share a common programmatic thrust, the main features of which are the promotion of greater use of market forces, the reduction of state intervention in the economy, the encouragement of more open trade regimes and the creation of an environment which is more receptive to foreign private capital flows. In the past, the Fund and the Bank have reinforced each other in insisting on fairly rapid adjustments in economic policy and although, as we have seen, the World Bank appears to be having second thoughts about the breadth of policy adjustment it requires in its SAL programs, it is still advocating 'profound reform' in a more limited number of areas. (World Bank 1985: 54)

Not surprisingly, governments which share IMF/World Bank views on the appropriateness of these programmatic emphases and which believe they can handle their political ramifications tend to have a relatively easy time in reaching agreement with the IMF/World Bank; others encounter varying degrees of difficulty depending on the strength of their disagreement over required policy directions and/or their assessment of the political feasibility of various options open to them.

It is with the IMF that most disagreements arise, partly because an IMF program must precede negotiations for an SAL, and partly because macro-policy adjustments within the sphere of responsibility of the IMF have, by nature, a more immediate and often a more visible political impact than sectoral and institutional policies handled by the Bank. The three critical areas of dispute tend to be the closely-related ones of the degree of short-run demand restraint required, the efficacy of price and especially exchange rate flexibility and the impact of programs on income distribution. (Helleiner 1983, 1986, Loxley 1986 b, Nyerere 1986, Singh 1986) These contentious issues are not confined to SSA and have been debated in the literature for some time. (Payer 1974, Dell 1981, 1983, Williamson 1983, Killick et al 1984) The Fund's viewpoint on them has also been aired on many occasions (see e.g. Nowzad 1981, Ouattara 1986 and comments by Mohamed in Helleiner 1986). There is little evidence from SSA that in practice disputes result in compromise; the IMF tends to have its way eventually, even if resolution takes many years (e.g. Tanzania). In the process, however, inadequate attention is often paid to the political sustainability of programs which is why so many of them fail. (Nelson 1984)

World Bank structural adjustment programs have provoked equally heated debate in the literature but seemingly much less political controversy with individual members in practice. Questions have been raised about the propriety of such detailed policy intervention, and about the historical antecedents and future sustainability of the World Bank's private enterprise market-driven, export-oriented model of accumulation. (Loxley 1984b, 1986 a, IDS Sussex 1983, Green 1985) This approach to adjustment has been compared unfavourably with that advanced in Africa's own Lagos Plan of Action which emphasizes greater national and regional self-sufficiency and embodies an explicit concern for meeting basic needs, a concern which tends to receive much less emphasis in Bank publications now than it did prior to 1981. (Browne and Cummings 1984)

The potential exists, therefore, for profound disagreement between members and the multilateral institutions with regard to both the short *and* long run implications of programs. The big fear is, of course, that measures intended to solve the economic crisis will *themselves* create further social unrest, undermine fragile political consensi and even, in the extreme cases, enhance state repression. (Nyerere 1986) Certainly the economic liberalization advocated by both the Fund *and* the Bank is rarely ever accompanied by *political* liberalization. Some would even go so far as to speculate that rapid economic liberalization after years of pervasive state intervention might generate political pressures in SSA which could only be managed by an authoritarian state. (Hutchful 1986)

The political consequences of adjustment are of course closely related to the depth and speed of adjustment required which, in turn, are an inverse function of the quantity of external finance available to meet imbalances. At the moment, this part of the continent is actually paying back more to the Fund than it is receiving in new loans (IMF September 1986: 99) raising further questions about the suitability of the institution for the task it faces in SSA. The new Structural Adjustment Facility should help low income SSA countries significantly, providing as much as US$1.13 billion over three years, but this still leaves them short of some US$2.1 billion per annum in concessional funds if even the minimal target of halting the per capita decline in consumption is to be met by 1990. (World Bank 1986 a) The gap in the resource needs of middle-income SSA countries is also not affected by this facility and is projected at US$1 to US$3 billion per annum if per capita income levels are to be restored to 1980-82 levels by the end of the decade.

These dismal projections raise important questions about the politics of debt repayment in SSA. They assume extensive debt rescheduling but even then the debt servicing ratio for IDA-eligible countries will still be in excess of 25% of exports and for twelve countries will be over 35%. This is an alarming prognosis underscoring the need for a systemic solution to SSA's debt problem. Debt repayment difficulties are now so severe that even the Fund and the Bank, which in the past prided themselves on their repayment record, are experiencing arrears. Nyerere has argued that the sum total of Africa's annual debt servicing payments *is* significant to the industrialized capitalist world and has called for collective action by African states to use this fact to press for more substantial debt renegotiations. (Nyerere 1986) It is, indeed, difficult to see how, in political terms, much of SSA can be expected to tolerate declining or stagnant consumption levels while at the same time channelling significant proportions of scarce foreign exchange earnings into servicing past debts. In the absence of some broader international initiatives, default and arrears will continue to grow and it may even be a sign of sound economic management on the part of debtors that they do so.

Current approaches to debt servicing also impede adjustment efforts. Rescheduling tends to proceed only year by year, preventing the forecasting of financing available for adjustment over the medium term. Also, unlike in

Latin America, debt rescheduling in SSA does not proceed simultaneously with aid negotiations but rather follows them. In the past this has encouraged creditors to demand increased debt servicing payments from enhanced aid flows designed, originally, to ease adjustment. (World Bank 1986 a: 45-46) The mechanics of debt rescheduling can, therefore, also have important political implications through their impact on the residual adjustment effort to which they give rise.

Debt rescheduling is, itself, a highly political exercise with the terms often varying according to the strategic importance of the country concerned to the major creditors. In a similar vein, narrow political considerations may also on occasion determine the stringency of conditions attached to multilateral loans and the ease of access or otherwise to those loans. There is evidence that sympathetic governments of countries considered to be of strategic importance to the United States have, on occasion, received favoured treatment from the multilateral institutions. Thus, the IMF showed remarkable flexibility in renewing its assistance to the Sudan in the years 1981 to 1985 in the face of repeated contraventions of the terms of its agreements. This was in response to pressure from the US government which even went so far as to divert its bilateral aid to the repayment of the Sudan's arrears to the IMF so as to permit the Fund to continue to enter into negotiations and agreements with the Sudan. (Brown 1986) On other occasions, US intervention has held up or prevented loans being made to member countries of the IMF regardless of their record of economic management or commitment to reform (e.g. loans to Bishop's Grenada were delayed; Vietnam has been denied all loans. Loxley 1986: 91). For its part, the World Bank has refused assistance to countries which have fallen out of political favour with the USA (Egypt, Chile, Vietnam and Afghanistan) while in at least one case it allowed its funds to be used to substitute for US bilateral aid when Congress had cut aid for reasons of widespread human rights violations in the country concerned - the Philippines. (Ibid p. 145)

THREE SSA CASE STUDIES: SOUTH AFRICA, IVORY COAST, AND MOZAMBIQUE

A brief overview of the experience of three SSA countries with the multilateral institutions should help reinforce some of the points raised above. The following case studies demonstrate the diversity and political complexity of Sub-Saharan African experience with respect both to relationships with international agencies and to economic crisis and adjustment.

South Africa

South Africa drew on IMF assistance in 1976/77 and again in 1982. On the first occasion the need arose due to severe domestic political turmoil which discouraged foreign capital inflow; on the second, the country experienced a sharp fall in export volumes and prices due to the global recession and, again, mounting political opposition to the apartheid policies was undermining the confidence of foreign private investors. Both decisions to grant loans were very controversial, so controversial that minutes of the 1982 Executive Board meeting were leaked to the anti-apartheid movement, giving outsiders a unique insight into the internal debate and the eventual informal voting pattern among Executive Directors. (Centre for International Policy 1983)

It appears that despite opposition from no less than 68 countries (and, incidentally, the United Nations itself), the assistance was approved by countries holding 51.9% of total IMF votes. The US, in particular, was strongly in favour, arguing that assistance was justified on financial grounds and on the basis of need. (*Globe and Mail*, Toronto, 29 October 1982) Yet several of the Executive Directors, representing mainly Third World countries, argued that the request should have been denied on purely technical grounds. The need for assistance was questioned in the light of South Africa's huge gold reserve and its capacity at that time to borrow in the private capital market, given its credit worthiness and its very low (7.9%) debt servicing ratio. It was also pointed out that the program did not meet even minimal normal conditionality requirements; it called for no reduction in the relative size of the excessive budget deficit, and, unusually, not even credit restraint appeared to be called for: indeed, the government had recently lowered reserve requirements and anticipated greater domestic borrowing to meet its own needs. There was no requirement for South Africa to end its extensive subsidization of domestic energy, or to lift its import surcharge. Above all, there was absolutely no mention in the proposed agreement of South Africa's need for structural adjustment in the labour market; this criticism was simply a euphemistic way of calling for the abolition of the apartheid system itself. Again, the arguments were narrowly technical, centering on the inflationary impact of artificially generated shortages of skilled labour and the administrative and budgetary costs of managing the rigidities.

Assistance was approved in spite of these "technical" shortcomings in the proposal. What is more, the loan was front-ended to a remarkable degree (80%), so that any conditionality attached was virtually unenforceable. It is noteworthy that the IMF has not been so undemanding in terms of conditionality with the rest of SSA; nor has it been prepared to consider a similar degree of front-end loading elsewhere, even though a strong argument can be made for it to strengthen supply response and reduce possible inflationary consequences of exchange rate changes, etc. (Loxley 1986 b) It is to be noted, however, that South Africa was able to draw so much "up front" because most of its borrowings were under the Compensatory Financing Facility. This would not explain, however, the low degree of conditionality because South Africa also entered into a Standby Arrangement equal to 57% of its own quota even though it eventually drew on an amount equal to only 25%. Furthermore, CFF drawings above 50% quota (South Africa drew 100%) require members to satisfy the Fund that appropriate steps are being taken to rectify balance of payments problems. It is apparent, therefore, that South Africa was treated quite leniently.

Underlying the seemingly narrow arguments of the Executive Directors was, of course, a profound concern about the institutionalized violation of human rights in South Africa. Budget imbalances are not unrelated, of course, to the huge cost of repression inherent in the system and to the military expenses involved in destabilizing the economies of neighbouring states which oppose apartheid. IMF credits, it is argued, facilitate such spending and help legitimate apartheid by improving the system's international credit-worthiness. The very fact of the Fund dealing with South Africa serves to legitimate apartheid. This accusation renewed efforts on the part of church groups and others to have human rights criteria built into the evaluation process of the international financial institutions. There is intense debate around this issue (see, for instance, the contributions of Morell, Drake, Dupras, Foster and Shinpoch in Torrie, 1983). Proponents feel that it should be a relatively simple task to introduce a basic human rights test. Some opponents are sympathetic to the idea but feel it is impracticable; others argue that it would politicize these institutions. In rebuttal, it is pointed out that whatever difficulties might be encountered in defining human rights abuse, there is almost total unanimity that apartheid fits the description. Furthermore, as the South African loans themselves demonstrate, the international financial institutions are already politicized. Ultimately the issue is one of political power and the multilateral agencies are controlled by states to whom human rights issues are often of distinctly secondary importance to their own perceived strategic interests.

The Ivory Coast

The Ivory Coast is important as a case study because it is considered a 'model country' by the multilateral agencies, one to be emulated by other SSA states. It has long pursued development strategies based on encouraging foreign private capital inflows and in the 1960s and 1970s was noted for the success of its peasant-based agricultural export-led growth.

Since the early 1980s it has been held up, once again, as a role model for the rest of Africa; this time on the grounds of its commitment to implement IMF and World Bank stabilization and adjustment programs.

Since 1981, the Ivory Coast has entered into a three-year Extended Facility with the Fund and three Standby Arrangements covering a four-year period (1984-87), receiving balance of payments assistance to the tune of over SDR 733 million. Over the same period the World Bank has approved three Structural Adjustment Loans totalling over US$650 million. These huge sums of money were drawn upon to help rectify serious balance of payments problems which arose in the 1970s but which became evident only at the end of the decade. The post-independence regime of accumulation began to reach its limits. This was based on the state extracting surplus from agriculture to build up, in conjunction with foreign capital, a highly protected import-dependent, inefficient, industrial sector. The erosion of incentives to farmers through adverse domestic terms of trade, caused by an appreciating CFA currency relative to the dollar, a weakening world market, high local industrial prices and, effectively, high rates of taxation through the state marketing board system (La Caisse) led to export stagnation. The second oil shock combined with this to create huge current account balance of payments deficits which in turn discouraged private capital inflows. (Kouadio 1985, Marcussen 1983, Campbell 1985)

The initial years of adjustment were not, however, successful. Budget and current account deficit targets were not met and an evaluation of the 1981-83 experience concludes that the IMF measures did not positively affect either deficit. (Kouadio 1985) Nevertheless, on arguments that unexpected drought and an adverse international environment were largely responsible for this poor performance both the Fund and the Bank entered into new programs. While it is patently inaccurate to conclude that multilateral credits were "granted apparently without strings" (Marcussen 1983), it appears that a much more accommodating view was taken of Ivory Coast's difficulties than of those facing other SSA countries at that time.

Adjustment since then has taken the form of a new Investment Code giving yet further incentives to foreign capital, and the imposition of large tariffs and export subsidies designed to replace import quotas and to compensate for the country's inability to alter unilaterally its exchange rate. Greater price incentives to farmers, reductions in the size of the public sector and increased taxes within the framework of a tight money policy are just some of the additional measures to move towards internal and external balance. Good weather conditions, a large improvement in the terms of trade and "exceptional financing through external debt rescheduling" as well as additional Bank and Fund support enabled all performance criteria to be met in 1985. (IMF Press Release No. 86/20, June 23, 1986) Real income grew

5% per annum, inflation fell to 2% per annum and both the fiscal and external balances became positive. This remarkable turnaround paved the way for even more exceptional funding in 1986 when the country became the first one in Africa to enjoy multi-year debt rescheduling from the Paris Club. (*Globe and Mail*, Toronto, January 16, 1987)

As a model for the rest of Africa, however, the Ivory Coast has severe limitations. The political ramifications of austerity have been managed smoothly, partly because the state was able to shift much of the burden onto low income proletarian migrants from neighbouring countries (raising the issue of the usefulness of a *national* as opposed to a broader regional form of economic adjustment programs in this part of Africa) and onto high income French expatriates, both of which the country employs in large numbers. (Campbell 1985) Yet unemployment among skilled Ivorians is becoming a problem (Ibid), expenditure restraint is now beginning to hit lower level civil servants and industrial workers, and poverty-stricken rural workers are said to be migrating to urban areas in large numbers. Domestic capitalists, whose activities have always been held in tight check by the plantation owners who control the state, are being squeezed through credit restraint and competition from foreign capital. There are questions, therefore, about the political stability of the country as the costs of austerity are felt increasingly by Ivorians.

Both the IMF and the World Bank also feel that recovery is very fragile. It is highly dependent on the performance of coffee and cocoa, both of which face weak world markets. Furthermore, even after favourable rescheduling terms, the debt servicing burden continues to be high, standing at 35.2% in 1986 (IMF Survey, November 17, 1986), and thus continues to be a major drain on the economy. Finally, the Fund is also concerned about the slow supply response to reform while the World Bank is worried, more specifically, about the pace of response to industrial reform. Some observers share these concerns, and feel that adjustment measures fail to appreciate the complexity of the industrial sector and overestimate its capacity to change quickly from an inward to an export orientation while the abolition of the quota system appears to have resulted in an accelerated rate of plant closures. Each of these points to the critical nature of structural constraints facing SSA countries and raises question marks about the wisdom of strategies designed to integrate Africa even more firmly into the international system as it now operates. They also underscore the importance of longer term, reliable financing for adjustment efforts.

One other potential problem is worth noting. The single most politically sensitive issue in many parts of Anglophone SSA has been exchange rate adjustment. This has, however, been less of a problem in Francophone Africa in the past five years.

The French franc has depreciated relative to the US dollar so that Francophone Africa, being tied to the franc, has experienced a significant automatic currency depreciation without this being the outcome of any domestic political debate. While some of this depreciation was offset in real terms by adverse relative inflation rates, there is no question that being tied to the franc brought fortuitous political benefits over this period. Now, with the depreciation of the US dollar relative to other major currencies, Francophone Africa might find its real exchange rate appreciating for reasons outside its control and have to face the political consequences of overt policy changes in this area, through extensive and recurrent tariff and subsidy adjustment.

Mozambique

Mozambique provides a number of sharp contrasts to the Ivorian case. To begin with, it is evident that the Mozambique government joined the IMF/World Bank only with reluctance as it ran out of options. It did so after it failed to gain admission to the CMEA and was unable to obtain sufficient resources from Eastern Europe in 1983 to enable it to contain its economic crisis. (Wuyts 1986: 159) Secondly, its economic strategy from independence until quite recently was premised on building a nationally integrated socialist economy with an explicit emphasis on meeting the basic needs of the people and reducing external dependence. (Egerö and Torp 1983) Thirdly, three quarters of its non-peasant economy is state owned and subject to material planning while the distribution of certain basic consumer goods is undertaken through a system of direct rationing, both in urban areas and, to a lesser extent, elsewhere. Fourthly, the country is at war with South African-supported bandits who control large parts of the country but who have no program other than the overthrow of the government through destruction of the economy. (Marshall 1986) The combination of these factors suggests that arriving at a mutually acceptable adjustment program, leave alone implementing it, might raise particularly difficult issues in this case.

There is, however, no ambiguity over the need for drastic alterations in policy direction and FRELIMO itself has arrived already at a recognition that many of the policy changes the IMF/World Bank might insist upon are desirable. The necessity for action stems from the depth of the prevailing economic crisis which is among the most severe in Africa. Real incomes are estimated to have fallen by 2% per annum between 1973 and 1983 and at an even faster rate since then. Merchandise exports fell by a half between 1982 and 1984, merchandise imports are now five times the size of merchandise exports (Mackintosh 1986) and the current account deficit has reached 23% of GDP. The country is now even more vulnerable than ever to fluctuations in invisible earnings from mine labour in South Africa and from transportation earnings from neighbouring countries including South Africa.

Mozambique's external debt obligations simply cannot be met. Total debt outstanding is 120% of GDP, the debt servicing ratio even after debt rescheduling through the Paris Club stood at 174% of exports in 1984 and arrears are mounting. The result has been a severe goods famine, the growth of a widespread black market co-existing with regulated prices and rationing, and a retreat by peasant farmers into subsistence.

Many of the causes of this crisis were outside Mozambique's control; serious recurring droughts, cutbacks by South Africa in 1976 in the recruitment of migrant mine workers, the global recession and the almost incessant warfare, first of all with Rhodesia and more recently and more seriously with RENAMO. Yet in FRELIMO's fourth congress, 1983, it was admitted that serious domestic policy shortcomings had contributed to the crisis and many of these have a familiar ring to them; insufficient incentives to the rural sector through low official purchasing prices and lack of availability of consumption goods and farm inputs; excessive state intervention and over-centralized decision-taking in such areas as marketing and distribution; over-regulation of prices and too heavy a reliance on capital intensive, inefficiently managed state farms. (Mackintosh 1986) Steps have been taken to rectify some of these problems and in particular the government has expanded the role of the private sector in agriculture and distribution, has allowed the market more influence in the determination of prices and has centralized its investment activity on rehabilitation as opposed to capacity expansion. It was, no doubt, on the strength of these initiatives that the World Bank extended a US$45 million import-reconstruction credit to Mozambique in 1985.

Further multilateral assistance is being negotiated and the Fund and the Bank can be expected to press for more extensive privatization and even greater reliance on market forces. Mozambique will need to judge what size of state sector it can manage efficiently and which further aspects of planning, rationing and control it can sacrifice without prejudicing the war effort or its increasingly precarious political base. Certainly a strong case can be made, in the context of warfare, for continuing the rationing of food aid, for preserving state food production until a workable state-controlled food procurement system is in place (Mackintosh 1986, Abrahamson and Tickner 1984), and for continuing state control over the allocation of scarce foreign exchange and key local inputs into industry.

Apparently, the government has been resisting a devaluation but sympathetic observers believe that the exchange rate should be adjusted and made more flexible (Wuyts 1986, Mackintosh 1986) if this is accompanied by large concessional flows of foreign assistance. This raises the issue of the kind of package for which Mozambique might qualify. Given the severity of the country's problems, the hostile environment in which reforms must take place and the somewhat tenuous hold the government has over much of the economy, the pinpoint targetry of a Standby Arrangement would seem to be even less appropriate than usual. The type of concessional, low-conditionality package discussed above would be preferable, if it is a feasible option. The key question would be how much money the World Bank and bilateral donors would be willing to contribute to offset the lower sum forthcoming from the IMF in the form of a Structural Adjustment Facility loan. Ideally, extensive debt forgiveness should be negotiated or else multi-year, long-term debt rescheduling; the alternative of simply building up arrears that may never be paid off is to no one's benefit.

The question that arises is how far the current policy direction of the government represents a tactical retreat from socialism or a strategic defeat for the socialist project in Mozambique. The new directions will undoubtedly strengthen domestic capitalism in agriculture and trade and possibly in industry (it is not likely to attract much foreign private capital at this point) which can only serve to develop objective political interests against future socialist initiatives. The disaffection of the peasantry must already be widespread, given the government's consistent record of neglecting the materials needs of *both* individual peasants and peasant-based co-operatives. (Roesch 1984, Wuyts 1986) Furthermore, the earlier promises of achieving peoples', and therefore peasants', participation in decision taking were never realized. (Marshall 1986) Current policies mark a further retreat from co-operatives but seem to shift resources from state farms to larger private farms rather than to peasants (Wuyts 1986), although some peasants will surely benefit from improved domestic terms of trade. In any event, adjustment is not strengthening socialist forms of organizing; quite the opposite.

The issue also arises of the relationship between short-term adjustment and longer-term goals of transforming the structure of the economy. Current policies mark at least a temporary retreat from those goals; this is inevitable in the current circumstances. Given the severity of the crisis in Mozambique, it is unlikely that the resources needed for such structural change will be available in the near future; but even if they were, the tutelage of the IMF/World Bank would act as a strong impediment to moving away from an export-oriented economy.

Each of these case studies represents in its own way, an extreme example. Few countries will raise quite the furor encountered by South Africa when applying for assistance; few will be as amenable to IMF/World Bank conditionality as the Ivory Coast and not too many centrally-planned Marxist-oriented SSA states are likely to turn to the IMF in the midst of war-induced crisis. Nevertheless, these examples help to demonstrate the complex and variegated motives that members have in seeking assistance, the diversity of problems facing SSA states as well as their similarities (on which, all too often the international agencies tend to focus), and the differential impact that conditionality is likely to have in different circumstances despite its underlying common programmatic content.

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5. The IMF and India

Cheryl Payer

INTRODUCTION

Recently I was reading a journal article about the role of the IMF in Africa. The author was alarmed about what she styled the "recolonization of Africa" by the International Monetary Fund (IMF) and the World Bank. "Such international coordination and degree of takeover - recolonization", she wrote, "was imagined by only the most paranoid radical critics of ten years ago... What was perceived as a slightly hysterical and paranoid scenario during the past two decades has become a reality for African states in the 1980's." (Gruhn: 41)

Exactly ten years before the date of that article, my own (hysterical paranoid radical) book *Debt Trap* was in press, so as you can imagine these sentences brought me some grim pleasure. There is an American joke: Just because you're paranoid doesn't mean they're not out to get you.

Examining the conditions attached to IMF lending has been a major intellectual industry in recent years. Similar work on the Structural Adjustment conditionality of the World Bank is still in its infancy.

There now exists an enormous body of criticism of IMF conditionality. Most of it has not been as radical as my own, and some has been downright ignorant. I would like to give my opinion on some of these criticisms which I think have been misleading and miss the mark.

First, some critics have said that the conditions demanded by the IMF were developed in the context of the economic policies of developed industrial countries and are suitable for application to those countries, but not to Third World countries where conditions are quite different.

The truth of the matter is that where programs similar to IMF adjustment programs have been implemented in developed industrial countries, the results have been the same as in the Third World, including unemployment, downward pressure on wages, inflation, the shrinking of social welfare programs, and the bankruptcy of small business. The depreciation of the U.S. dollar over the past two years has not improved the trade balance as economic models predicted. The IMF has also been used for political purposes: to break the back of the 1974 revolution and reinstitute conservative economic management in Portugal, for example; and to keep the Communist Party out of the ruling coalition in Italy in 1976. (Payer 1985)

Another fallacy of some IMF critics is to complain that the adjustment required is too rapid, too much of a sudden shock, whereas the adjustment should be gradual. If one agrees with the real, not the stated, aims of IMF programs, of course, there is some point in arguing about the timing and sequencing of reforms. Such arguments are dangerously beside the point, however, if one believes, as I do, that the IMF agenda is pushing countries in the wrong direction. In such a case it may be better to go slowly than rapidly, but surely the wisest course is to reverse direction immediately.

Still another fallacious criticism of the IMF is that it requires countries to reduce their imports. This is true only in the limited and very recent sense that the IMF does not like to see countries using foreign exchange for imports when their debt service is in arrears. With this one exception, however, the IMF wants all these countries to import as much as they possibly can, and if they pay up their arrears, it will happily lend them the money with which to do so and urge other lenders to do the same.

Finally, I agree with Jacques de Larosière, the former managing director of the IMF, on at least one thing: the IMF does not impose austerity. Austerity inheres in the very problem which drives desperate governments to negotiate with the IMF, and none of these governments would go to the IMF if they were not hoping for relief from austerity.

There are two major criticisms of the IMF which are of fundamental importance. The first of these is the class nature of IMF-decreed adjustment programs. What the IMF *does* do is to decree which classes suffer austerity, and which classes receive relief or exemption from it. Austerity is inevitable in most of the situations in which the IMF is consulted. The IMF ensures that the classes which could most easily bear the burden of that austerity, those which enjoyed the fruit of past borrowing and which were most responsible for the accumulated debt burden, do not have to suffer any of the austerity.

The classes which have not been responsible for the debt buildup, the ones which have gained little or nothing, or worse than nothing, from past borrowing, but which create the wealth of these countries, are the ones which have to bear the burden of austerity.

In some cases the elites who benefit from the IMF's type of austerity-for-the-lower-classes are in sufficient control of the government to impose such programs without (legal) opposition. But in many cases this is not so. Sometimes the IMF has to force governments to repeal laws that have already been passed by their legislatures.

Officially, the IMF maintains that it is strictly neutral in the matter of distribution of austerity: it helps governments decide by how much spending has to be cut, but it is up to the borrowing government to decide where those cuts are to be made.

This is simply a lie. The IMF has quite definite ideas about who should bear the burden of spending cuts - also definite ideas that wages should be repressed and social spending curtailed while tax concessions are given to foreign investors and laws are changed, if necessary, to facilitate foreign participation in the economy. And the IMF will withhold approval until such changes are made. The only exceptions to this (and they are numerous) are the cases when non-economic political considerations point to the need of the powers behind the IMF to support incumbent governments, in which case the strictness of the IMF will be tempered with mercy.

I cannot assume that the sympathies of my audience lie in the same direction as my own. But it is important to be clear about the class nature of IMF programs. It is in the interest of only one side - the dominant side - to conceal the reality of class conflict. And I feel that at least some of the detailed technical scrutiny of IMF conditionality - in particular the currently fashionable discussions about sequencing and phasing - is designed to obscure these fundamental realities.

That is my first basic criticism of the IMF. My second criticism is one which has received surprisingly little attention, because too many people have been afraid to challenge the sacred cow of free trade.

Dozens of countries have been led into debt because the IMF encouraged them to import and borrow, rather than save. Trade and exchange liberalization are being forced upon economies which absolutely cannot afford them.

THE IMF AND INDIA

It is to illustrate this point that I have chosen to present a case study of India's experience with IMF lending and conditionality. It may be too late for most African countries to take warning from India's experience and avoid the debt trap altogether. But it is not too late to draw a moral about what is, and what is not, a feasible solution to the crisis; and which institutions are *not* qualified to prescribe solutions.

When the IMF announced in November 1981 that the Government of India was drawing 5 billion SDRs under a three-year Extended Fund Facility (EFF), this was the largest amount ever extended to any borrower, larger even than drawings by industrialized countries such as Great Britain and Italy.

Furthermore, this huge sum was being extended to a country that was *not* in any kind of crisis. Some effort was made to justify the drawing in terms of a widening current account deficit and a sharp drop in reserves during the previous year. That much was true. The current account deficit had widened to 2.6 billion SDRs in the fiscal year 1980/81* , from 262 million SDRs in the previous year, and reserves had fallen.

These bare facts conceal more than they reveal. This one bad year followed a decade of prosperity and several consecutive years of surpluses. The foreign exchange reserves still represented more than five months' worth of imports, a more than adequate cushion. When Tanzania had accumulated reserves to the equivalent of five months imports, at the end of 1977, it was advised by the World Bank and the IMF that this accumulation was too high, and even embarassing to foreign aid donors; a poor country, they said, should not hoard its reserves but spend them in order to develop more rapidly. (Payer 1983: 798)

Furthermore, even the adverse turn of India's balance of payments and the decline in reserves were due in part to temporary and reversible events: the failure of the monsoon in 1979/80 and the disruption in oil production because of ethnic and political strife in the Assam oil fields. The IMF's own memorandum justifying the large loan admitted that "the sharp deterioration in India's external position is partly due to transitory factors" including the drought and the disruption of domestic oil production. The Government of India, in its letter of intent to the IMF, cited "the full impact of the rise in prices of oil and related products, the earlier disruptions to domestic oil production, weak market demand and restricted access for our exports due to increased protectionism".

In fact, the weak and half-hearted attempts to prove that there was a "crisis" of India's balance of payments are easily refuted. The World Bank remarked that "India entered this adjustment period from a much stronger position. Reserves were at record levels and there was a significant pipeline of concessional assistance which had built up at the same time that the debt service burden had fallen to its lowest level in two decades". (World Bank 1982, para. 3.51) The U.S. government withheld its approval of the loan precisely on the grounds that it was not desperately needed (and that the conditions were not tough enough). The IMF itself confirmed this by congratulating India for seeking assistance *before* the economy fell into dire straits. "As one official put it," the *New York Times* reported, "the agency wants countries to come in before the situation is desperate." He added: "India is not a basket case. But do you want only basket cases to come in?" (Nossiter 1981)

(We are fortunate to have available for research the text of both the Indian government's letters of intent requesting the loan and the IMF's confidential memorandum supporting that request. These documents were "leaked" by an Executive Director of the IMF from an unnamed Third World country to

*The Indian fiscal year runs from April 1 to March 31.

a journalist, N. Ram of The Hindu (Madras) who was capable of understanding their significance and who published large chunks of the text, with analysis, in his newspaper. This revelation aroused a storm of criticism in India at that time, and another publication, *Sunday* magazine of Calcutta, ran a cover story on the loan with critical articles by several Indian economists. The articles from *The Hindu* and *Sunday* were also published by the Government of West Bengal state with an introduction by Ashok Mitra, the then Finance Minister of West Bengal.)

The IMF did foresee a crisis of a rather different nature, however. From the original IMF memorandum, which was made available to me, we can learn the real nature of the crisis which the loan was designed to forestall. But to do this we will have to go back before 1981.

India's official economic policy since independence has been to give a predominant role to state-owned enterprises, to prevent the concentration of private economic power, and to provide protection to industrial products which can be made in India. Its philosophy is thus totally at odds with the private-enterprise, free-market, international free trade philosophy of the IMF and the World Bank and their chief sponsors among the industrialized nations.

The weakness of India's industrial strategy has been the nation's dependence on foreign capital inflows to provide an import surplus for production and consumption. With every foreign exchange crisis, the Western powers have been able to chip away at Indian industrial and trade policies. An earlier work of mine documented in detail such a crisis, in 1966, in which the World Bank was able to demand a degree of import liberalization as the quid pro quo for supplying an emergency balance of payments support. (Payer 1975, chapter 8)

According to some Indian economists, the 1966 liberalization/devaluation package was the beginning of the slippery slope leading to economic ruin. "The turnaround in economic policy did not happen overnight. The mentality, the approach, the philosophy have taken shape over the last 15 years. The worldwide connections were built with care, tested through time, and nearly perfected with perseverance." (Sau 1981: 25)

Like that Indian author, I see a very patient, very long-term campaign on the part of the IMF and the World Bank to open the Indian market to Western exports, Western technology, and Western private investment *whether or not these were needed by India* . The successes of this campaign have been scored mainly since the first accession to power of Indira Gandhi, and they have accelerated in recent years, but the successes have come very slowly despite the long dependence of India on concessional sources of aid.

It has been alleged that Indira Gandhi's declaration of emergency rule in 1975 was a result of an economic program designed under World Bank/IMF pressure, which in turn was an effect of a major balance of payments crisis in 1973. I have not been able to check whether this "crisis" was more genuine than that of 1981. But, according to this account a new economic policy announced in July 1974 was designed under IMF pressure, and it does not seem that Indira put up much of a fight about it.

According to journalist Jeremiah Novak, "the (IMF) 'strings' were no secret in 1974-76... What was missing was a clear assessment of these policies and their implications... The strings are clear and open - just not understood." (Novak 1977, part I)

By April 1974, according to this account, Mrs. Gandhi had to conclude a "major" financing of the balance of payments deficit with the IMF and by June a major loan from the World Bank's aid-to-India consortium. (Actually India drew a total of 495 million SDR from three different facilities during the course of 1974, which was small both absolutely and as a percentage of quota (52%) compared with the 1981 drawing of 5 billion SDR, which was 291% of quota). But the consortium "in part because of prodding by Mr. Daniel Moynihan (U.S. Ambassador to India) proved to be insistent that Mrs. Gandhi give up her quasi-socialistic policies... and turn to more 'western' policies".

Novak attributes the imposition of Emergency rule in June 1975 to the political opposition stirred by the IMF program. "The Bangalore speech (of July 1974) and its policies fell heavily on the working man. While prices did begin to fall in 1974, wages fell faster and unemployment increased as the result of the anti-inflationary policies. This led to economic unrest that exploded into political protest through the movement led by Mr. Jayaprakesh Narayan... *The IMF-India programme needed the emergency to be fully implemented.* (Novak 1977, part II) In Novak's concluding article of the series, he comments, "These IMF arrangements require changes in policy that are almost impossible to implement without authoritarian rule. And Mrs. Gandhi was not the first, nor the last, to implement an IMF stabilisation program under a dictatorship. (Novak 1977, part III)

Can the balance of payments deficit of 1979/80 be attributed to the import liberalizations of, first, 1966, and later those taken under the Emergency? Indian economist Ranjit Sau thinks that while 1966 marked the "beginning of the end of import control," "the present crisis can be directly traced to the policy measures initiated in 1975." (Sau 1981: 25)

In fact, the late 1970s saw a series of measures of import liberalization. The patience of the IMF and the World Bank were beginning, very slowly, to pay off. The process was relatively painless because India's balance of payment situation improved greatly and reserves were accumulated during the first few years after the imposition of Emergency rule.

India's secretary for economic affairs had to promise further liberalization of imports when he faced the aid consortium in July 1977, because he had to fight the presumption that India's stronger reserve position might imply less need for concessional assistance. In 1977-78, he assured the consortium, there should be a sizeable deficit due to a substantial step-up in imports because of a liberalized import policy and a rising tempo of economic activity. (*Times of India*, July 5, 1977)

Revelations of the Fund Memorandum

In public, the IMF and the Indian government gave prominence to the steep rise in the price of imported oil as one of the factors leading to the jumbo loan. In their confidential memorandum, however, the IMF staff acknowledged that oil import problems were transitory. Once the conflict in Assam ceased, and new oil production facilities came onstream, oil import volume was projected to decline.

"By contrast, there will be a step-up in the growth of *non-oil imports* to 28 per cent (17 per cent in volume terms) from 14 per cent in 1980/81. *The principle factor contributing to this acceleration is the continuing effect of import liberalization measures taken in earlier years* ; the more liberal import regime has made possible sharply higher imports of steel, chemicals, and equipment to support economic expansion." (IMF, p. 4)

The importance of this paragraph cannot be exaggerated. We have already established that India was not in crisis when the loan was granted. Now, from the horse's mouth, we learn that, to the extent that there was a projected problem due to trends in India's balance of payments, the problem was caused largely by the very policies which the Fund and Bank had encouraged India to adopt during the previous decade and *which were to be deepened and intensified in the so-called structural adjustment program to be financed by the huge loan.*

We also learn from the Fund memorandum the real nature of the "crisis" which induced it to lend such a large amount of money. "The authorities indicate that their early measures toward external adjustment and their equally early approach to the Fund were designed to avoid an even more difficult economic situation and facilitate the process of adjustment without a crisis situation. It should be noted that, in the absence of these early efforts, the balance of payments needed during the program period would have been even higher, and the potential need for Fund financing would have been greater than the SDR 5,000 million (291 per cent of quota) now being requested; *alternatively, there would have been pressure to reverse the present liberal stance of import policy.*" (IMF, p. 8)

This, at least from the IMF side, was the real justification for the loan. The Fund, reflecting the wishes of its major sponsors, particularly the U.S., has throughout its history consistently opposed the use of exchange and import controls as a solution for balance of payments problems. The long, patient campaign to open the Indian market to foreign goods, foreign investment, and foreign technical "collaboration" was threatened by the financial and trade consequences of its very success. As has been the case in the vast majority of all IMF standby arrangements, the money was, essentially, a bribe to keep the nation's markets open to the world and to open them even wider.

Indian critics of the IMF loan pointed out that it would be quite simple to balance India's trade bill (and preserve the decades-old official philosophy of development) by simply reducing imports.

"There exists enough of a slack in the import bill, thanks to recent liberalisation measures, whose elimination will not only obviate the necessity for the loan but would close the payments gap as well," asserted one economist, mentioning the purchase of French Mirage aircraft as one costly import India could dispense with. (It was widely remarked that the cost of the jets roughly approximated the amount of the IMF facility.) "It is by no means an exaggeration to say that a system of import controls backed up by appropriate distribution controls domestically would eliminate not only the need for the IMF loan, but also the payments deficit." (Patnaik 1981: 16)

Conditionality

The Reagan administration, in refusing to vote in favor of the loan at the IMF executive board meeting in 1981, cited the lack of strict conditionality as one reason for disapproval. Indian supporters of the loan argued that the government had obtained the money in exchange for only "light" conditions.

This is true, in one sense. The effects of conditionality were not immediately obvious, or were not publicly associated with the loan, so that there were no mass protests of the kind often experienced in other countries when IMF agreements are enforced. But this is only to be expected since there was no real crisis. There was a bank credit squeeze in late 1981/82, but on the whole the monetary targets seem to have sat lightly on the Indian economy. The conditions were not "light" but they were slow-acting, and the government seems to have been in agreement with them.

In fact, a number of policy measures taken by the Indian government in early 1981, *before* the announcement of the loan, were preconditions required of the government - although the Indian public may not have made the connection. (Catherine Gwin chooses to characterize this as a "preemption" of conditions; Gwin 1983: 519).

In particular, a series of price increases for major consumer products and services in the public sector was decreed by the Indian government in the months preceding the loan agreement. "In addition to tax measures, the

Central Government increased railway and postal and transport tariffs... Steel prices were raised by 20 per cent and coal prices by 20-50 per cent... Petroleum prices were raised in June 1980 and again in January 1981. More recently the Government has increased the price of domestic crude oil... Fertilizer prices were raised... *The additional burden passed on to users through higher prices for petroleum and fertilizer alone since mid-1980 amounts to over 3 per cent of GDP*." (Government of India 1981, para. 13; IMF 1981: 34)

Other measures taken shortly before the loan announcement which indicate that the government was moving in the direction wished by the IMF included "lowering the rates of direct taxation and increasing the burden of indirect taxes, relaxing the provisions of the Monopolies and Restrictive Trade Practices Act, the Foreign Exchange Regulation Act and the Industrial Development (and Regulation) Act, enacting legislation prohibiting strikes in certain sectors, etc..." (Mitra 1981: 7)

During the same period the government tightened credit, raised the statutory reserve ratios of commercial banks and raised a variety of administered interest rates (World Bank 1.40); and it was also suspected that a 15 per cent depreciation in the value of the rupee against the dollar over the preceding six months was also part of the package. (Mitra 1981: 7,8) This may be due to the appreciation of the dollar however, as the rupee appreciated against European currencies in the same period. (Gwin 1983: 518n)

Explicit conditions written into the agreement between the Fund and India (violations of which would be grounds for suspension of disbursements) included:

- A ceiling on domestic credit of the banking system and sub-ceiling on net credit to the Government;
- Limits on new official and officially guaranteed foreign indebtedness;
- A ban on new or intensified exchange controls, import restrictions, multiple currency practices, or bilateral payment agreements (which would seriously limit trade with the Soviet Union and Eastern bloc countries).

Behind these few explicit rules lay a clever if not exactly subtle attack on the fundamental premises of the Indian system of regulating production and trade.

The IMF wanted, and the Indian government acquiesced in, improvement of conditions for private investors, including loosening of the anti-monopoly laws and regulations. The Indian government promised "to follow a policy which takes account of the objectives that industry should earn adequate returns," and a "flexible" administration of existing regulations. "Fully export-oriented units have been given additional concessions and export capacity has been exempted from antimonopoly regulations and domestic licensing provisions." (Government of India, para. 9).

The IMF memorandum spelled out what was expected from the side of the Fund: "Important steps are being taken to ease excessive regulations and restrictions affecting private sector activity." (p. 9) "*This approach aims to reverse the previous direction of economic development* and policies which made the domestic market more attractive than exports." (p. 16).

"Procedures relating to foreign collaboration and royalty payments are being considerably liberalized for all industries," crowed the IMF. (p. 16) Policies favoring the small-scale sector (which had been favored under Indian law) "need to be implemented in a manner which pays due regard to the efficiency of resource use and production." Of course the IMF assumes that the big companies are the most efficient, so that regulations favoring the small-scale sector should be administered "flexibly" or ignored altogether.

But above all else, the leitmotif of the IMF-India agreement was the liberalization of imports. This theme occurs everywhere, on nearly every page, every paragraph. The IMF staff memorandum stressed "the importance of the authorities' statement that the important policy for 1982/83 and 1983/84 will contain significant steps for liberalizing imports." And at the first annual review of the EFF, the Reagan administration reversed its opposition to the jumbo loan, citing its satisfaction with the progress on import liberalization.

It is astonishing how many miracles the IMF expects import liberalization to accomplish. Import substitution and self-reliance, which are given at least lip service in discussions of the energy sector, seem to require enormous quantities of imports. Self-reliance in energy requires a large step-up in investment, and such investment requires "substantial recourse to project-related foreign borrowing." (p. 7)

In order to maximize production, domestic industry must have improved access to imported inputs and imported technology. In order to reduce dependence on imported petroleum, domestic oil exploration had to be opened up to foreign participation, and the investment program would require heavy borrowing and imports.

> Import policy during the program period will be guided by the need to provide a growing volume of imports to support increased private and public investment, rapid growth, and improved economic efficiency... The authorities indicate that measures under consideration include increasing the access to imports of banned and restricted items permitted under automatic import licenses and changes in the classification of items under the banned, restricted, and open lists. Economic efficiency would also be encouraged by steps to allow the forces of international competition to operate more freely, and selective import policy steps to reduce levels of protection of domestic industry will be considered. (IMF pp. 27, 28).

The World Bank also agreed that India should increase, rather than decrease, imports in order to "solve" its balance of payments problems. "Enhanced long-term growth prospects must be based on an efficient exploitation of India's extensive resource potential combined with infrastructural modernization *both of which will require a significantly higher level of imports than was the case in the past.*" (World Bank 3.34)

"Our analysis indicates that further substantial growth in general imports is both *likely and desirable* as India carries out its adjustment program." (World Bank 3.45) With a wistful nod in the direction of its long-term objectives, the Bank regretted that "there has been little indication that the Government intends to use trade policy as a means of encouraging competitiveness across a broad spectrum of industries." Nevertheless, it is happy to see some progress: "The import policy of the past three years has provided a framework for assuring fuller utilization of capacity and removing the petty obstructions to imported inputs not produced in India. Maintaining this environment *in the face of severe deterioration of the trade account* provides ample evidence of the Government's commitment to a more open economic environment and provides a solid foundation for further improvements." (World Bank 3.47)

But what does all this have to do with improving India's exports, which both the Fund and the Bank accept as the theoretical desideratum? The supposed logic is that production is the bottleneck for Indian exports, and that if export-oriented firms are provided liberalized access to capital goods, spare parts and raw materials, they will be able to overcome production bottlenecks and export more. Liberalized access to imported technology, through direct investment and royalty agreements, etc. would give Indian firms a technical edge which should improve the international competitive position.

Not everyone accepts this logic, however. Protectionism and adverse terms of trade, not production problems (except, temporarily, for oil) are generally cited as the causes of India's trade deficit. And even the World Bank is forced to admit that "restriction on imported inputs" did not seem to be a factor in the downturn of exports in the early 1980s. (World Bank 3.25)

It is difficult to prove that these changes were forced upon the Government of India by the IMF because at no point has the Prime Minister or any other high-level administration official made any complaint that the government was not wholeheartedly in agreement with these measures. The only hint is Catherine Gwin's remark that the reduction of external restrictions was "a(n) even more sensitive issue..." (Gwin 1983: 520) India rather presents the spectacle of close agreement between the highest level of government and the Fund, while this alliance is bitterly opposed and criticized by many lower-level officials and non-Governmental critics. One voiced a suspicion: "Would it be that the hard prescriptions which an EFF loan from the IMF embody are being made use of for introducing policies and measures which, in usual circumstances, the Indian people and Parliament would never agree to accept, but which could now be smuggled in under the cloak of the binding conditions of a supposedly absolutely essential foreign loan?" (Mitra 1981: 10).

But if import liberalization is of dubious value as a way of increasing exports, there may be a political agenda behind it. One would expect the business community, particularly the industrial producers, in India to be hostile to import liberalization because they have long been accustomed to a projected market. This would be particularly true if the liberalization allowed other businesses - import-export houses, for example, or foreign sales agencies - to compete with them.

In India, however, the import liberalization has been 'canalized' as the Indians say, through the export producers, so that these businesses can themselves profit from it. The exact nature of this liberalization is very complicated to explain, because it is being used to force openings in an already complex system of licenses, permits, and categories of banned restricted, and permissable types of imports. But the essence of the changes is to give firms which export goods certain priviliges of import. So-called "one hundred per cent export" firms are exempt from many of the normal laws applying to business in India, for example; and other exporters are granted import licenses in proportion to their exports.

Although imports of consumption goods are not mentioned in these regulations - because officially the rationale is to allow exporters access to needed raw materials, spare parts, capital goods, etc. - in fact it is well known that there is "leakage" of these imports into consumption goods. Within a generally protected environment, such import privileges can be extremely valuable. And so the IMF and World Bank have transformed at least part of the powerful Indian business community into beneficiaries of import liberalization, and thus allies of the liberalization program.

Some other political/economic effects of the IMF program can only be mentioned in passing. Two of these may have permanent effects on society: they are the shift from direct taxation (which is at least in theory progressive) to indirect "resource mobilization" which will bear more heavily on consumption goods needed by the poor.

Related to this is the effect of the new policies on the complicated balance of power between state and federal governments. The effect of the economic policy supported by the IMF is to increase the taxes collected by the central government which do not have to be shared with the states; and to de-emphasize the collection of the type of revenues which by statute are divided between state and federal governments. The effect of this will be a shift in power away from the states toward the central government. (Sau 1981: 646-7 and IMF 1981: 29)

The IMF loan is now more than five years in the past. If we had accurate and up-to-date statistics about the performance of the economy, we would be in a position to judge the program on whether it has fulfilled its promises and/or the dire predictions of its critics. Unfortunately it is much more difficult to make accurate observations on the performance of the Indian ecomomy than it is to discern the *intentions* of policy-makers from their published, or leaked, declarations.

India surprised the world in early 1984 by declining to draw the last tranche of the loan for which it was eligible. The reason officially given was that India was doing so well in accumulating foreign exchange reserves that it did not need the money. This would seem to indicate that the program was a stunning success. Reserve figures published by the World Bank, however, show only a tiny one per cent rise in reserves between end 1981 and end 1983.

However, there are at least two other possible unadmitted reasons over which we can speculate. One is that the Indian government and the IMF may have come, in the final year of the program, to some irreconcilable difference on conditionality, which although never publicly admitted, impelled the government to refuse the final drawing.

Also, we must remember that between the signing of the agreement in 1981 and the refusal to draw the final amount in 1984 the Latin American debt crisis fell, with its consequent huge demands on IMF resources. It is possible that the IMF felt that this final billion was more urgently needed elsewhere and was able to persuade the Indian government to consent to relinquish it.

The curious thing about the official rationale for not drawing the final billion SDR is that the IMF itself did not foresee such a fast improvement in the balance of trade when it lent the money in 1981. On the contrary, the IMF memorandum clearly indicates that the balance of payments position would actually *worsen* in the medium term if the proposed policies were followed faithfully. Total debt service payments were projected to rise from eight per cent of current receipts in 1980/81 to a peak of 16% in the late 1980s "before receding".

But it cannot be assumed that debt service will "recede" if India falls into the debt trap, which it seems to have done. In that case, more borrowing will be necessary to cover the obligations incurred in earlier years. It is instructive to compare the "projected debt service" figures (for *any* country) given in the World Bank's *World Debt Tables* five or ten years ago with the actual debt service payments for the same years in more recent issues.

Because these projections do not attempt to predict future borrowing, the so-called "peak" of debt service payments is a mirage which always stays within sight but constantly advances into the future.

Lest the prediction of a rise in debt service sounded too alarming, the IMF hastened to add that "Total interest payments on external debt would at no time reach as high as 1 per cent of GDP. The ratio of outstanding debt to GDP would rise from 11 per cent in 1980/81 to no more than 13 per cent toward the end of the decade." (IMF, p. 9) This sounds very comforting; and indeed these percentages are much lower than the corresponding ratios for countries in crisis like Mexico and Brazil. It is less comforting if we realize that Mexico had comparable interest/GDP and total debt/GNP ratios in the mid-1970s, and that Brazil had comparable ratios in the late 1970s. The world has discovered that it is not so easy to stop borrowing when a hypothetical ceiling has been reached!

The Extended Fund Agreement was originally scheduled to run for three years, three times as long as a normal IMF standby. Even so, it was not long enough, by the Fund's admission, to correct any deficits. "Adjustment in the balance of payments is likely to be delayed and extended beyond the end of the program period. Substantial additional borrowing, much of it on commercial terms, will be required during the period until adjustment is complete." (IMF, p. 47-48)

Since India had a foreign debt of roughly US$16 billion dollars in 1981, it could easily be calculated that the IMF loan alone would increase that debt by one third. But the IMF loan was not the limit of India's future borrowing, it was merely the beginning. Indeed, it was treated as a bridging loan, financing the deficits until such time as commercial, World Bank and other types of project finance could be put in place. According to the IMF memo, "Fund financing will play an important role for three years while steps are taken to arrange and carry out additional project financing." (loc. cit.)

Among the many criticisms of the loan raised by Indian economists at the time it was signed was the complaint that the terms of the loan bound India not to incur commercial debt above a certain ceiling. The critics complained that with this clause the government was cutting itself off from an alternative method of financing its needs that would not require onerous conditionality. I believe this particular criticism was badly off the mark. This prohibition, like all similar ones in other IMF contracts, is inherently unenforceable. If the borrowing government prefers bank loans to IMF credit (and is able to obtain them without an IMF program), it can simply abrogate the IMF agreement and borrow as much as it chooses.

The danger lay in the opposite quarter. India did not have to make the choice between IMF and commercial bank credit. It could have both, and indeed *increased* bank borrowing was part of the package. The so-called ceilings on loans excluded two large projects which were expected to require major bank financing, and even then the ceilings were far above the rate at which India had previously been borrowing. These so-called "ceilings" were thus rather an encouragement than a hindrance to commercial borrowing.

India borrowed very little from commercial banks during the craze for Third World lending in the 1970s. This was not, as a popular misconception had it, because the country could not borrow, but because the government had prohibited such borrowing for almost any purpose except shipbuilding. (Wellons 1977: chapter 8) In fact, the banks considered India a highly desirable borrower - chiefly because they had almost no India paper in their portfolios and desired to diversify their risks away from the already heavily borrowed Latin American states - and India received very fine terms when it borrowed in 1977. (Euromoney)

As a result, the IMF was able to report that "India enjoys a sound credit rating which will enable it to tap the international financial markets in the 1980s within the broad framework of gradual external adjustment." (IMF, p. 41) The International Monetary Fund, the organization which, according to official wisdom of all the developed capitalist countries knows best how to prevent and remedy balance of payments problems, threw all the weight of its authority and nearly 6 billion dollars behind its enthusiastic recommendation that India should plunge into the commercial (i.e. high-interest) borrowing which it had previously avoided. "Substantial additional borrowing, much of it on commercial terms, will be required during the period until adjustment is complete." And remember, this was in 1981, when real interest rates were already very high and not (as was asserted in defense of commercial borrowing during the 1970s) negative.

"However, " the IMF reassured, "the envisaged levels of borrowing on commercially-related terms, together with purchases under the proposed extended arrangement, will not result in an excessive deterioration in the present favourable debt profile, or impose an unmanagable debt servicing burden later during the 1980s." This soothing sentence, on the last page of the memorandum prepared by the IMF, was nevertheless followed by a considerably more ominous sentence:

"However, the path ahead is a daunting one, not only because of an adverse international trading and aid climate, but also because of the vagaries of weather and its powerful and pervasive influence on the economy..." If such influences are less favourable than projected, they added, a reassessment of the program targets would be necessary. But the money would have been borrowed, the imports purchased, and the debt would have grown. The Fund knew what it was doing.

What is the picture now, more than five years since the Extended Fund Facility was agreed upon and signed? I would be a fool to pronounce upon what is happening in India from the other side of the world and with statistics that seem to be always at least three years out of date. But here are a few gleanings from what I have been able to read.

The accession of Rajiv Gandhi as prime minister after the assassination of his mother in late 1984 has given additional impetus to the process of liberalizing the economy and becoming more dependent on Western technology and processes.

The liberalization program has been followed very unevenly in fits and starts. Even as some restrictions have been removed, others are reimposed. This allows critics of the IMF and the World Bank to say that India's problems are being worsened by the liberalization program, while its supporters blame "the bureaucracy" for thwarting Rajiv Gandhi's vision and delaying India's entrance into high-tech Nirvana.

One study of the electronics industry suggests that import liberalization and encouragement of foreign technological collaboration are leading the importation of "screw-driver" technology: expensive imported components are assembled on Indian soil, with no real gain, and probably even losses, in technological self-reliance. (Muralidharan 1986)

This is all too plausible - and would be bitterly ironic. For this is the kind of "import substitution" which Western economists have criticized so harshly when it was implemented in Latin America and elsewhere in the fifties and sixties. As the IMF and World Bank used the weaknesses of this kind of industrialization to boost so-called "export-led development", they are now promoting it in India as an attractive alternative to the existing form of import substitution.

Four new foreign collaborations were approved for the manufacture of light commercial vehicles in the past two years, and now the new plants are operating at only 20 per cent of capacity. The government is reported to be reluctant to repeat this experience with the passenger car industry. (*Wall Street Journal*, Dec. 22, 1986)

India declined a US$150 million loan from the World Bank last summer, stating that a condition requiring private sector participation in an onshore oil exploration plan was unacceptable. India had previously accepted World Bank conditionality requiring foreign participation in offshore oil exploration.(Payer 1982: 201-2)

But if it is not easy to judge the effects of liberalization on the Indian economy yet, it is all too easy to see the effect on the trade balance. There, just as predicted by the IMF in its 1981 memorandum, the balance has worsened over the time period of the EFF and after. In fact, it is even worse than the IMF predicted.

Recall that the IMF memorandum predicted that debt service payments would "peak" at 16 per cent of current receipts in the late 1980s. The World Bank now says that the ratio was 15.2 per cent in 1984-85 and is projected to rise to close to 20 per cent in 1989/90 and increase slightly over that level through the mid-1990s. (Chanda 1986)

This may be optimistic, however. In its 1985 annual confidential report on the Indian economy, the World Bank warned that unless exports grew much faster - at a 9 per cent rate by 1990 - the debt service ratio could top 40 per cent by 1995. (*Wall Street Journal/Europe* , July 11, 1986) Exports actually declined slightly during the first six months of 1985/86, while imports rose 25%.

Thus the scenario of 1981 is being repeated. The World Bank is now using yawning trade deficits, which were created by import liberalization pushed by itself and the IMF, as the justification for insisting on more of the same.

But if the Indian government got the 1981 loan on easy conditions, as it boasted at the time, the screws are gradually tightening. The Bank is demanding devaluation of the rupee. It is also urging India to borrow more, much more, from commercial banks than even the Indian government wants to. The Indian government wants to borrow about US$2 billion per year over the Seventh Five-year plan (1985-90), while the Bank is urging it to borrow as much as US$4.5 billion annually.

In the light of these figures, how quaint seems the Indian government's pledge in 1981, not to borrow more than SDR 1.4 billion from commercial banks in the first year of the EFF!

As usual, the Bank's recommendations are not limited to the external sector. It is also pushing hard for more preference to the private sector, for dismantling national anti-monopoly regulations and those reserving certain industries for small business, and for replacing excise taxes on luxury items with a value-added tax.

And of course, the panacea for all economic ills, import liberalization, must be carried even further. Is it not remarkable that, whether the economy is doing well or badly, whether foreign exchange reserves are described as being embarassingly high or dangerously low, whether we are talking about Brazil, India, or Grenada, this is the first and ever-recurring demand?

Is it not equally remarkable that the most successful exporters of this decade - countries like Japan, South Korea, Taiwan, and Brazil, seem to have achieved their export growth with little if any import liberalization?

This reminds me of the fairy tale of Cinderella. For a country, to be successful in exporting is like marrying the Prince. Who, except perhaps a modern independent woman, could possibly be against it? But I am also reminded that when the glass slipper was being passed around, Cinderella's stepmother told her daughters to cut off their toes and heels so that they could fit into the slipper. What does it matter, she said, to be lame if you can ride in a carriage the rest of your life? I see the Bank and the Fund in the role of the stepmother, asking various countries to cripple their productive sectors in the hope of winning the grand prize of an export market. But these two ugly stepmothers can't deliver the Prince any more than could the one in the fable.

The entire arsenal of IMF conditionality, which seems at first glance so complex, is actually reducible to the opening of the economy to imports and to foreign investment and technological exploitation, which they call collaboration. And this in turn is easy to explain as in the material interests of the countries which control the Fund and the Bank. Nothing could be further from the truth than to claim that the IMF wants countries to restrict their imports.

So what is to happen to India? As before, India is not yet in a crisis - but it is much closer to one than it was in 1981. As before, the crisis, as seen from the Fund and the Bank, is that the scary trade deficit will prompt India to put the brakes on the liberalization program. Thanks to the changes wrought under IMF and World Bank conditionality, that will not be so easy now as it would have been six years ago. Billions have been spent - borrowed billions. The wealthier classes of India have become accustomed to imported consumer goods just as many of their industries are now dependent on imported inputs and technology. So when the crisis comes - as it will, barring some unforeseen renaissance of exports - the government will have no room left to manoeuvre.

It is astonishing that this should have been permitted, and even encouraged, to happen, in the 1980s, when we have the lesson of Latin America before our eyes.

According to the Morgan Guaranty bank, India's total debt is now US$39.7 billion, the sixth largest in the Third World.

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6. Responses by Representatives from the IMF and the World Bank

LOUIS M. GOREUX

With the emergence of the debt crisis in mid-1982, the resource flow from non-official sources (banks and direct investments) and from export credit agencies to developing countries has sharply declined. This development has been particularly striking in Africa where official assistance from bilateral and multilateral sources now accounts for the bulk of resource transfers. In Africa south of Sahara, real GDP per capita, which had increased by more than 3 per cent a year from 1965 to 1973, did not rise significantly from 1973 to 1980 and declined from 1980 to 1986. As a response to the special problems of the region, the share of official assistance going to Africa has almost doubled since 1980. Becoming increasingly concerned with the efficiency of their financial assistance, several bilateral donors have conditioned their increased assistance to the improvement of the policy environment in the receiving country. Simultaneously, the World Bank shifted a greater part of its assistance from project lending to program lending, the latter being often associated with structural adjustment programs supported by the Fund in the context of standby arrangements. This has led to what some of the previous speakers have called the explosion of conditionality in Africa.

Several of these speakers recognized that some form of conditionality was unavoidable but argued that the present form of Fund/Bank conditionality was not appropriate and needed to be improved. They argued in particular that this conditionality was an infringement on national sovereignty, that it was class biased, that the Fund programs were too standardized and that, often, they were underfinanced. I will attempt to answer some of these criticisms. Mr Gulhati will address more specifically the issues of import liberalization, privatization, and underfinancing.

Broad objectives of Fund programs

Fund programs aim at providing consistency among the budgetary, monetary and balance of payments objectives, and at establishing a consistent macro-economic framework. In doing so, the Fund does not start from a normative concept, such as the desirable rate of growth, but from an assessment, as realistic as possible, of the feasible growth path given the various economic constraints, notably those relating to the financing of the balance of payments. It should be stressed that the balance of payments deficit is always financed ex post; consequently, if an adjustment is not programmed ex ante, it occurs ex post due to the limitation of the capacity to import. Because growth expectation often substantially exceeds realistic possibilities, the Fund is regarded as having an anti-growth bias. This is not the case. The Fund and the Bank are aiming at adjustment with growth.

I mentioned that the balance of payments deficit must always be financed ex post, but it can be financed by the accumulation of external arrears or to prevent their incurrence. Fund programs aim at an orderly reduction of external arrears through debt rescheduling and greater external assistance. The Fund has played an important role in facilitating the rescheduling of official debts through the Paris Club and of bank debts through the London Club and bank advisory committees. The rules of the Paris Club are being progressively eased and what was called exceptional rescheduling a few years ago is now becoming current practice for a number of countries with protracted balance of payments difficulties. In addition, the Fund and the Bank have become increasingly involved in mobilizing additional assistance under concessional terms through Consultative Groups and exceptional meetings of donor countries.

Infringement of national sovereignty

In a world becoming increasingly interdependent, no country can follow an independent economic and monetary policy. The recent experience of several industrial countries has shown that no country can follow an expansionary policy in isolation without unduly raising its external current account deficit which ultimately requires adjustments with a possible impact on the exchange rate. What applies to industrialized countries applies even more to developing countries largely dependent on international trade. Moreover, the Fund has obviously more leverage on borrowing countries with restricted access to international capital markets than on countries lending to the Fund.

Previous speakers indicated that the Fund was using this leverage to infringe on national sovereignty but was, at the same time, paying insufficient attention to income distribution. Many of us here believe that income distribution is far from optimal in a number of African countries, but income distribution objectives reflect ethics which differ in Nordic and in African countries. Imposing our own income distribution objectives on other countries may be considered as infringing on the prerogatives of sovereign governments.

Class bias

It has been said that Fund programs have the effect of worsening the situation of the urban poor and it is true that the elimination of food subsidies had often this effect. But the great majority of the African population live in rural areas. The reduction of subsidies on imported food in urban areas has the effect of improving the terms of trade of the rural population in relation to the urban population, and the rural poor are often poorer than the urban poor. Moreover, increasing domestic prices paid to agricultural producers has the advantage of reducing food imports and slowing down migrations from rural to urban areas. Fund programs may contribute to reducing real wages of government employees. But, in many countries which did not adopt Fund-type programs, real wages have fallen dramatically over the years due to the effect of uncontrolled inflation.

Standardized prescriptions

The Fund has been accused of prescribing the same corrective measures to all countries without giving enough consideration of the particular features of the country concerned. It is true that the Fund aims at correcting price distortions in order to provide the right signals to producers and consumers and, more generally, at providing an environment conducive to growth. Because the most important source of price distortions often results from an overappreciated exchange rate, the Fund is often encouraging countries to depreciate their exchange rates to realistic levels.

I have led missions in countries where the domestic currency cost of foreign exchange in the parallel market was a multiple of its cost at the official market, with a multiple of five, ten or even fifteen. I am convinced that such distortions lead to inefficient resource allocation, promote corruption and are an obstacle to growth. What is important is not a one-time adjustment of the exchange rate but the maintenance of a realistic exchange rate over time, which cannot be achieved without financial discipline and restraint in the rate of monetary expansion. Hence, most Fund programs include fiscal, monetary and foreign exchange rate measures.

The Fund has also been accused of placing too much emphasis on demand management and not enough on supply-side measures. This may have been true initially, but, as the Fund has become more closely involved with low-income countries, it has been paying increasing attention to the supply side and has become aware of the time lag required for the beneficial effects of supply side measures. This is illustrated by the closer cooperation between the Fund and the Bank and by the recent establishment of the Strucutural Adjustment Facility. The Policy Framework Paper prepared in the context of this new facility is being considered by the Boards of the Bank and the Fund, which demonstrates the growing concern of the Fund with the problems of structural adjustments on the supply side, on which Mr Gulhati will elaborate.

RAVI GULHATI*

In interventions by conference participants, four major issues were adressed:
- import liberalisation and the claim that some of the policies advocated by the Fund and the Bank were leading to the neglect of the industrialisation of Africa, and in fact causing decline of this sector.
- the Bank and the Fund ideology in pursuing the theme of privatisation.
- the statement that conditionality had been stepped up, that it was widespread and that it was getting beyond what was necessary to deal with balance of payments problems.
- the issue of external underfunding of African economic programs and the related problem of African debt.

Import liberalisation and deindustrialisation of Africa
Various interventions have created the impression that import liberalisation is a bad policy, a policy of lack of discipline leading to the debt trap and beyond. And that behind this, that there may be some kind of international conspiracy. It is important to clarify these points.

The World Bank has carried out a large number of empirical studies on the size, pattern, competitiveness, efficiency etc. of the industrial sector in African countries. The findings are that policies pursued by governments during the 1970s stimulated the sector at the outset but at the expense of agriculture. At present, the sector has the following characteristics;

(1) In many African countries many industries are presently producing *negative value added*, i.e. some industrial activity is not producing any real value for the economy.

(2) Another segment of industry is producing *positive value added, but at high cost in terms of domestic resources*, such as labour and capital.

(3) Finally there exist *efficient import substituting industries* , producing at reasonable costs.

The balance among these three different categories varies among African countries. The incentive structure which led to this pattern of industry has some features which can be enumerated as follows:

(a) Overvalued exchange rates, meaning the underpricing of imports of capital equipment and intermediate goods. This has led to establishment of industries which are very capital- and import intensive.

(b) In dealing with the balance of payment problems many countries imposed prohibitions on certain kinds of imports, or introduced quantitative restrictions on a number of imports. This led to a great deal of protection for

* Editor's summary of main intervention by R. Gulhati on the second day of the conference. Adjusted and approved by Gulhati.

local industry and created conditions of excessive profitability for industries catering for the local market.

(c) Tariff structures of African countries also reveal some common features which have not led to good resource allocation. Very high tariffs have been imposed on finished consumer goods and low or no tariffs on intermediate and capital goods. The effect of this is high rates of effective protection for finishing , packaging- and assembly type industries. In fact these are the industries which produce a large amount of the negative value added.

When the Bank talks about import liberalisation, it does not talk about increasing the total value of imports for a particular country. The import bill can be managed either through prohibitions and quantitative restrictions or through the use of exchange rate-, fiscal- and monetary policy as well as tariff policy.

The issue of import liberalisation revolves around how much weight is to be placed on one set of instruments on managing the balance of payments as against another set of instruments. There is a great deal of evidence which leads to the conclusion that the way in which the imports and balance of payments have been managed has created an unfortunate framework of incentives which is heavily biased in favour of producing for the local market, which means import substitution at any cost. A very inefficient allocation of resources has been produced by this framework of incentives of the 1970s.

Focus on import liberalisation means trying to improve this framework of incentives, both by:

- rehabilitation or restructuring of existing industry, as present industrial activities can be aimed at improving its competitiveness.
- creating a framework of incentives for the next round of investments in industry - hoping that it will lead to industrial activity which is not overly biased either towards the home market or towards exports. One is hoping for the next round of investments to create efficient import substituting industries. My claim is that the pattern of industrialisation in the 1970s did not do this.

There is a lot of disagreement on how to bring about import liberalisation. The Bank is aware that a number of experiments have failed and that many pitfalls exist.

The Bank is presently conducting comparative studies in a series of countries in order to gain more insights about the proper sequence and timing of import liberalisation.

Privatisation

The Bank's policies on privatisation have changed over time. In the first period of the Bank, the view was that manufacturing industries could best be left to the private sector. Hence the Bank did not take interest in financing publicly owned industries. In the period of McNamara, the policy changed in favour of financing public industries and financial intermediary institutions with World Bank and IDA funds.

The present posture of the Bank is, in fact, not so much concerned with the question of ownership. It will be remembered that in the first Bank report on Africa (1981), it is stated in the early pages that the issue is not ownership, the issue is efficiency. That is what is reflected in the Bank's approach to conditionality or in trying to seek policy agreements with governments.

The Bank has been concerned about the performance of public enterprises and has worked on many aspects of improving them:

- The bank has been trying to improve the efficiency of key parastatals in many countries.
- Efforts have been made to improve the accountability of parastatals. This is an important issue, because little is known about the costs of these enterprises.
- Parastatal losses have been carried by the state budget, nearly without exception. This creates a poor environment for efficiency. The Bank has advised governments to change this "soft budget constraint".
- Often, governments require that parastatals pursue contradictory goals. The Bank has helped governments to clarify their objectives.

The posture of the World Bank is different from those arguing that everything should be privatised or deregulated etc. Privatisation is seen as an option. There are some countries which have exercised this option.

Conditionality

There is not much chance of getting sustained policy reform unless there is agreement on the part of political and bureaucratic managers. To the extent that conditionality involves arm twisting and agreements are signed under financial stress, the question must be raised whether such policy changes will, in fact, be implemented and sustained over time.

We should think of this subject not in terms of conditionality but in terms of policy agreements, in terms of building up commitments and convictions on the part of the authorities about the appropriateness of making these changes. This is of course a much slower process, and it raises issues about how the Bank and the Fund are trying to do this, their procedures may have to change. The Bank and the Fund may have to reorient their approaches in this area and try to emphasise much more this process of concensus building and rely much less on leverage and arm twisting.

Both the IMF and the Bank are taking on a great deal of activity in this policy area. It is exposing the institutions to difficult terrain. The Bank and the Fund must try to have a longer term view and try to build indigenous capacity for policy work and policy formulation capacity. Such capacity should not be undermined by a short sighted approach. The World Bank is presently providing technical assistance and training within this field to Third World countries' institutions.

The view put forward that conditionality is legitimate, because it can be seen as some kind of collateral, is interesting. However, as far as countries depending on funds from IDA is concerned, this view is not so relevant. In these cases it is rather a question of rationing scarce funds to governments who have thought seriously about their deployment. Thus it is rather a rationing device more than a collateral.

Underfunding

There may be some difference of approaches in this area between the Fund and the Bank. Some policy packages are believed to have been underfunded in a very serious way. This has led to the fact that the benefits of these packages have been reduced and their political feasibility and sustainability have been put in jeopardy.

Deterioration in the world economy and hence for trade etc. may also weaken the beneficial impact of the policy measures undertaken. Underfunding adds to this problem and the result may be undermining of the policy changes.

The harshness of conditionality is increased with limited financial resources. Tension between short term policy and long term strategy is increased by underfunding. These are serious matters which require attention when looking at the future.

What can be done? The World Bank has tried to use the consultative group mechanism to fill financial gaps which have been identifed in particular countries, and particularly so in countries where serious efforts have been made at policy reforms. However, donors have not been receptive to these exercises. Many donors have clear cut ideas, unfortunately, about how their aid should be distributed. Their approach is not responsive to countries which put up a strong policy effort. There are many other factors motivating donor governments' allocation of aid which therefore makes the aid much more inflexible than one would wish to have it in order to be supportive of true policy reform.

Creditors are impatient, naturally, to get their money back. So, it is difficult to know what can be done on the issue of underfunding by the staff of the Bank and the Fund or its mangement. To solve the problems requires

quires a change of behaviour of the major providers of foreign aid, i.e. the major shareholders in the Bank and the Fund.

COMMENT

JOHN LOXLEY*

1. I am very disappointed over the limited framework within which the IMF/IBRD representatives are prepared to discuss issues.

2. Both institutions recognize that present solutions are not very satisfactory.
- the record of their adjustment programs is poor.
- they admit that *design* faults are at least partially to blame.
- debt management which is central to these programs is often completely out of hand and other funding sources are often, on their admission, inadequate for the current design of programs.
- the analytical basis of these programs is suspect, e.g. assumptions about cross-elasticities, equilibria and (as Wangwe argued) use of Domestic Resource Cost concept. There are also serious questions about the 'fallacy of composition' involved in export promotion as admitted by Mr Goreux of IMF.

Yet, both representatives still talk as if there is only *one* appropriate approach to adjustment. The Nigerian example shows that even after two years the program offered by the IMF had *not* changed; this *is* a take-it-or-leave-it attitude contrary to assertions of IMF/IBRD representatives.

3. Both speakers ignored totally the question of *alternative* approaches as raised yesterday by Frances Stewart and as proposed by Loxley in Helleiner (Ed) 1986 book of June 1985 Nairobi Conference.

4. Both the Bank *and* the Fund are committing the poorest countries to *particular forms* of adjustment with *long-term* strategic implications.

Yet there *are* long-term strategic alternatives as laid down, e.g., in Lagos Plan of Action or in discussion of Just Faaland on the possibilities of integrated development in the Sudan.

The World Bank presentations show a lack of concern over these issues and misrepresent some other aspects of conditionality, e.g., extent to which

* This comment by Loxley appeared in the open discussion of the conference at the end of its second day. It does not therefore relate directly to the above responses by Goreux and Gulhati, but also to their comments in discussions taking place in other sessions. In the open discussion, participants were asked to be provocative.

current programs have a bias towards private enterprise and the market.This is apparent from the Bank's record on Ujamaa in Tanzania and its current position regarding state farms, co-operatives and rationing in Mozambique. Nordic agricultural policy for SSA supports some of these biases too.

5. The Bank is more concerned with how to build a political consensus around a *given* approach to adjustment than it is in looking critically at that approach. Yet the political possibilities of consensus building are *not* independent of the content of adjustment programs.

6. Where did the self-confidence of the Bank come from?

- given the numerous switches of policy emphasis of the Bank in the recent past.
- given the role played by the multi-lateral and bilateral agencies in shaping economic policy and economic structure which are now under attack.

e.g.,

- price advice for minor crops in late 1970s bankrupted the marketing board and the commercial banking system in Tanzania - this came from a World Bank project.
- the Mufindi project which the TAG tried to stop in Tanzania was a joint IBRD/CIDA project.
- the Canadian Bakery.
- Swedish supported Small Scale industry (high import content, luxury market, sub-sidization of private sector, inappropriate technology).
- export credits for Scandinavian products, e.g., Scania, Volvo.
- now the World Bank is proposing detailed scrutiny of the expenditure plans of SSA countries: on what basis does the Bank feel it is better placed now to do this than it has been over the past 15 years?
- many people in Africa would argue that the continent's problems are not the result of insufficient openness but rather, just the opposite, that the external trade, investment aid and technical assistance influences have been *too* great.

7. IBRD/IMF ignored the whole issue of sovereignty. But the *degree* of conditionality *is* a problem, and even if the IMF/IBRD cannot see this, we can caution the Nordic countries against jumping on this particular band-wagon.

No Nordic country would accept this degree of external intervention in domestic policy formulation. In Canada we have a minor political crisis over US interference in the taxation of our lumber exports: that is, in the determination on *one* tax rate. How can we expect SSA to accept so much more?

8. My reading of the situation is that due to difficulties of implementation, the IMF/IBRD are in fact *backing off* conditionality to some degree and this

is a welcome development. Nevertheless the *degree* of conditionality is still huge. It is, therefore, important for this conference to discuss openly

- the nature of adjustment policies being recommended.
- the type and degree of conditionality, and
- what to do about SSA debt.

We should do this with or without the participation of the IMF/IBRD representatives.

7. IMF/World Bank Conditionality and Nigeria's Structural Adjustment Programme

Yusuf Bangura

INTRODUCTION

Successive governments have pursued wide-ranging adjustment programmes aimed at checking the rapid decline of the Nigerian economy. These programmes have been torn between the policy of adjustment through state controls and the monetarist package of unregulated market forces. The IMF and the World Bank have been central in the formulation of an appropriate structural adjustment programme in Nigeria that will be anchored on a fundamental adjustment of the exchange rate, trade liberalisation and privatisation so that the state's role in the economy will be rolled back to allow the market mechanism to allocate resources efficiently. The long march from the Shagari/Buhari programmes of adjustments through controls to the current administration's market-oriented adjustment programme has generated profound social and political problems; and a contraction in productive activities. Market forces continue to be affected by state regulation and oligopolistic business practices.

We start with a brief overview of the crisis and then analyse the extent to which the various governments' adjustment programmes were influenced by IMF/World Bank conditionality. The subsequent two sections deal with the transition to Babangida's adjustment programme, launched through a national debate on the IMF and the introduction of the second tier foreign exchange market, which became the centrepiece of the package. The final section deals with the impact of the adjustment programme on the economy and society.

THE CRISIS

Capitalism in Nigeria created a high import-dependency syndrome, over-reliance on oil revenues for economic development and expansive public expenditure projects that mainly benefited the private sector. The large oil revenues of naira (N) 65 billion that accrued to the state between 1973 and 1981 insulated the economy from the shocks of the early phase of the world capitalist crisis. (Bangura 1986a). State expenditure rose dramatically from N8.25 b. in 1975 to N13.291 b. in 1979 and N23.695 b. in 1980. Investment expenditure estimated at about N70b. in current prices over the period 1973 to 1981 exceeded the value of oil revenues received. Although the economy experienced a 10.4 per cent and 6.6 per cent rate of growth in 1976 and 1977 respectively, there was quite a lot of waste, over-invoicing and misappropriation of investment capital. The value added content of most of the industries was less than 15 per cent and the contribution of the manufacturing sector to the gross domestic product was just about 8 per cent. (Teriba et al. 1981)

The advent of Shagari's administration, 1979-83, coincided with a dramatic, all-time increase in the international price of oil from US$14.9 a barrel in 1978 to US$33 in 1979 and US$44.4 in 1980. Imports were liberalised, tariffs reduced, public expenditure increased and various fiscal measures such as the approved user scheme were introduced, which deepened the dependence of Nigerian industries on foreign inputs. As the World Bank mission of 1983 observed, "the focus of economic activity in the country shifted sharply to international trade, international and domestic finance, services and construction and real estate." (World Bank 1983a) The importation of consumer goods rose from N440 m. in 1974 to N2.136 b. in 1978 and N3.897 b. in 1981; that of capital goods increased from N670 m. in 1974 to N3.968 b. in 1978 and N4.667 b. in 1979; and raw material imports jumped from N519.3 m. in 1974 to N1.880 b. in 1978 and N3.038 b. in 1981. (National Economic Council 1983)

Investment and trade credits obtained from the international capital market, the World Bank and foreign governments also rose dramatically. This applied to both the federal and state governments. The total external loans received by the public sector more than doubled from 1982-1983. The cumulative external loans commitment was estimated at N18.5 b. at the end of 1983. This constrasted sharply with the total outstanding debt of US$2.35 b. in 1978. The level of aggregate capital inflow of N5.3 b. declined by 7.7 per cent between 1982 and 1983, whereas the level of capital outflow which stood at N2.2 b. in 1983 represented a 7.6% increase over that of 1982. The economy entered a serious debt crisis. In 1983, the repayment of principal and interest on the public debt rose to N1.3 b., an increase of 72.2%, when compared with payments in 1982. The public debt service ratio jumped from 8.9% in 1982 to 17.4 per cent in 1983. (Central Bank of Nigeria 1983)

Table 1. *Oil Export Revenues and GDP Growth*

Year	Oil Exports ($ million)	% Change	Surplus/ Deficit on BOP Current Account ($ million)	Foreign Exchange Reserves ($million)	GDP Growth Rate (%)	Non-oil GDP Growth Rate
1976	9,445		-412	5180	10.4	8.2
1977	11,564	+22%	-1,005	4232	6.6	8.2
1978	9,445	-18%	-3,758	1887	-5.6	-4.6
1979	15,657	+66%	1,647	5548	5.9	3.1
1980	22,408	+43%	2,953	10235	0.5	3.0
1981	16,748	-25%	-5,570	3895	-5.2	1.9
1982 (est.)	12,751	-24%	-7,341	1647	-5.3	-3.1
1983 (proj)	10,020	-21%	-3,238	1600	-6.7	-6.4

Source: World Bank: Nigeria: Macro-Economic Policies for Structural Change. 15th August 1983. Report No. 4506 - UNI p 6.

The dramatic drop in oil revenues from US$22.4 b. in 1980 to US$16.7b. in 1981, US$12.8 b. in 1982 and US$10 b. in 1983 seriously affected the balance of payments, public finances and the economy and society in general. The economy experienced a resource gap of about N3 b. (6% of GDP) in 1981 compared to a resource surplus of N2.6 b. in 1980 (World Bank 1983a:4) These imbalances called for major adjustments and structural changes.

IMF/WORLD BANK CONDITIONALITY AND THE EVOLUTION OF NIGERIA'S STRUCTURAL ADJUSTMENT PROGRAMMES (SAP)

The IMF and World Bank have been deeply involved in the formulation and implementation of Nigeria's structural adjustment programme. The political leadership which these two institutions provide the major Western banks and governments in international trade and finance ensures that crisis-ridden developing countries have to receive their seal of approval before any progress can be made in debt rescheduling, the opening of credit lines and foreign private investment. At the core of the IMF/World Bank strategy are the twin principles of convertibility and multilateralism in the conduct of international finance and trade to avoid the development of currency and trade blocks which, for instance, threatened the world capitalist order in the 1930s. (Gardner 1956) Convertibility and multilateralism are to be governed by market forces rather than by state regulation since, it is believed, market forces can allocate global resources according to comparative advantage. (Harris 1986)

During the first two decades of the post war period the IMF was guided by the Keynesian principles of fixed but adjustable exchange rates and was not unduly worried about state intervention which, in any case, helped in generating a long period of boom. But the high inflation rates which accompanied the boom, the prolonged U.S. balance of payments crisis leading to the devaluation of dollar and the collapse of the Bretton Woods fixed rates in the early 1970s, allowed for a radical shift in IMF/World Bank ideology, forcing them to attach strict monetarist conditions to their credit facilities.

The major assumption is that LDC exchange rates are overvalued since they were arbitrarily fixed at independence to subsidise the consumption habits of the elites and protect inefficient import substitution industries. Such over-valued currencies, it is argued, have encouraged a high import profile, capital flight, and shifts in relative prices unfavourable to the productive sectors. These distortions have been reinforced by the growth of inefficiently run parastatals, unrestrained government expenditure and discriminatory credit policies against the private sector. The net effect of these policies is an exponential growth in the money supply which has seriously affected the external and internal accounts, growth rates and price levels.

The IMF insists, therefore, on a set of target-specific macro-economic policies that will prune the state sector, remove the subsidies and trade restrictions, privatise the parastatals and devalue the currency and wage rates so that the market mechanism will be given an unfettered sway in the allocation of resources. Over the years, particularly for African economies, the IMF has come to recognise the exchange rate as the pivot of its adjustment package. (Zulu and Nsouli 1984) Although the World Bank was originally conceived as an institution that would provide long term project and programme loans for economic reconstruction and development, it has consistently fashioned its loan policies in line with the structural adjustment programme of the IMF. In fact, with the political turmoil that has accompanied the implementation of IMF conditionality in many developing countries, the World Bank has come to assume many of the IMF responsibilities through its Structural Adjustment Loans, enumerated in the Berg Report. (World Bank 1981)

The IMF and World Bank exerted considerable pressure on Nigerian policy makers in trying to get the latter to accept an adjustment programme that is pivoted around a market-determined exchange rate. It is not always the case that LDC governments willingly inflict monetarist policies on themselves since the so-called distortions have been enjoyed by the elites and private companies on whose behalf the IMF's structural adjustment policy is supposed to work. Most of these governments prefer various types and degrees of controls to correct the disequilibria in their economies rather than the IMF's politically costly adjustment programme. But the stalemate at the debt talks, the drying up of credit facilities and the general decline of the economy have allowed the IMF and the World Bank to work through a section of government officials, big influential private firms and text-book inclined orthodox monetary economists, to push through their adjustment programme in the country. But it was a bumpy road. The old order and the contradictions of adjustment continue to influence, distort and threaten the successful implementation of the programme.

SHAGARI'S AND BUHARI'S STRUCTURAL ADJUSTMENT PROGRAMMES

Shagari's government did not apply for an IMF loan until one year after it had promulgated its own adjustment programme. The Economic Stabilisation Act of April 1982 relied mainly on a combination of import restrictions, monetary controls and fiscal policies. All unused import licences were recalled for review; capital projects not yet started were deferred; public investment expenditure was reduced by 40 per cent; compulsory advanced deposits ranging from 50-250 per cent were imposed on a wide range of imported commodities; private jetties were closed and customs administration tightened; restrictions were placed on external capital transfers; tariffs and gasoline prices were raised and interest rates increased by 2 per cent across the board. The government showed no inclination to abandon the economy to market forces. Even the National Economic Council's Report of February 1983 on the state of the economy made no reference to the IMF's core adjustment strategy of liberalisation and devaluation, despite its support for privatisation, cuts in public expenditure and the stringent regulation of wages, allowances and bonuses. The Report not only endorsed the April 1982 measures but saw structural adjustment in terms of state intervention in the planning of external trade, the allocation of import licences and the introduction of a package of incentives to assist industry and agriculture. (National Economic Council 1983:27 and 28)

The government applied for an IMF Extended Fund Facility on April 18th, 1983. A loan of between N1.9 b. and N2.4 b. was expected from the EFF in accordance with the enlarged access limit whereby 102 to 125 per cent of the country's Special Drawing Rights Quota can be drawn over a three year period. (Cabinet Office 1985)

The IMF relied on the extensive World Bank studies on various sectors of the Nigerian economy, (World Bank 1983b; 1982; 1981b; 1981c) and the broad macro-economic policies for structural change which the Bank had recommended to the government in 1983. (World Bank 1983a)

The World Bank was very critical of the April 1982 package which, it maintained, "did not go beyond the stop-gap expedients directed towards short-term stabilisation". Asserting the need for a medium-to-long term structural adjustment programme, the Bank recommended that: (a) additional incentives should be given to the domestic productive sectors through a 25 per cent devaluation of the naira in 1983 (and a crawling peg through 1985) supported by appropriate tariffs and export subsidies; (b) it called for the introduction of effective fiscal and monetary policies such as a sales tax of at least one per cent; an increase in domestic oil prices from US$20 a barrel to US$30; a unification of and gradual increase in interest rates and the raising of the private sector's share of credit; and asserted the need for the phasing out of subsidies and quantitative restrictions. The Bank argued that an effective exchange rate and appropriate tariff structures rather than import controls should stimulate and protect local industries; (c) it insisted on a thorough review of expenditure programmes with a view to bringing down budget deficits to manageable levels from about 10 per cent of GDP in 1982. Projects, the Bank maintained, ought to be justified on efficiency grounds in order to avoid the misallocation of resources. (World Bank 1983a)

The IMF endorsed these broad policy recommendations during its negotiations with the Shagari administration. The Fund insisted that devaluation was the centre-piece of its adjustment programme (Cabinet Office 1985) and argued that "since the naira was over-valued by about 60 per cent", there should be a 25-30% initial devaluation, to be followed by a quarterly review until the element of over-valuation was eliminated. (Presidential Committee on IMF loan 1985) It also called for a massive reduction in capital expenditure to a figure not more than N4 b. yearly between 1983 to 1986 and endorsed the World Bank's recommendation that current government projects which would require N30 m. or more to complete should be reviewed and classified on the basis of priorities; and industrial projects that would not produce substitutes for imported raw materials (such as the petro-chemical scheme) or boost foreign exchange earnings (such as the Liquified Natural Gas Scheme) should be shelved. (Cabinet Office 1985)

The Fund insisted that the budget deficit should be substantially reduced, subsidies on petroleum products and fertiliser removed, grants, subventions and loans to parastatals and state governments curtailed and the approved user scheme and the Nigerian National Supply Company scrapped. It also recommended that all "commercial" parastatals should be privatised and the customs tariff structure rationalised to ensure the effective protection of domestic industries. Supporting the Bank's position for a fundamental review of the customs tariff, the Fund recommended that the review should be done with assistance from World Bank experts and must be linked to the exchange rate adjustment; it called for an upward review of interest rates and the adoption of a vigorous export promotion drive to boost the export of non-oil products. The Fund also demanded that the advanced deposit scheme should be abolished and external trade liberalised. (Cabinet Office 1985)

Shagari's administration did not stay in office long enough to complete the negotiations with the Fund. Although it sympathised with the general thrust of the Fund's adjustment programme it lacked the political and administrative capacity to implement it. The execution of the IMF programme would have required a major overhaul of the National Party of Nigeria's party machine and a shift in power relations from the "easy money-making" clique of contractors, traders and real estate, banking and construction magnates to a new financial/industrial oligarchy that would be prepared to absorb the high dose of monetary and fiscal discipline demanded of the Fund's programme. Even though the naira was allowed to depreciate by 29 per cent vis-à-vis the dollar in 1983, the regime refused to accept the centrality of the exchange rate adjustment in its programme. In spite of the stringent measures taken in 1982 and 1983 to curb the foreign exchange outflow, import bills and short term trade debts continued to accumulate very rapidly. Despite the government's withdrawal of US$737 m. from its "free" balances with the IMF, the balance of payments continued to suffer deficits. Three to four billion dollars worth of arrears in payments of short-term credits were recorded in December 1982 and reserves were depleted by an additional US$2.25 b. (World Bank 1983a; Bangura 1986b)

Foreign banks grew reluctant to confirm letters of credit and demanded instead direct payments for imports. Negotiations with the Fund also coincided with the general elections campaign. The central Bank was "put under increased pressure to open letters of credit at short notices for such federal government agencies as the Nigerian Police Force, the Federal Electoral Commission and the Presidential Task Force on Rice", necessary for the electoral calculations of the ruling party. (Central Bank of Nigeria 1983:16)

However, the IMF moderately reduced the gap between the government's position and its own policy objectives. For instance, with regard to the review of public expenditure, the government set up the Onosode Commission to review all government projects with a view to bringing them in line with IMF/World Bank suggestions. The budget of N4.64 b. for capital expenditure in the 1984 budget estimates just surpassed that of the Fund's by N0.64 b. The government also agreed to remove the subsidy on fertilisers in line with the Bank's suggestion of a gradual reduction to 25%

by 1988. (Cabinet Office 1985) There was no major quarrel over privatisation even though the government did not work out the modalities for its implementation.

The government was unable to satisfy all sections of the business class in its adjustment programme. The manufacturers Association of Nigeria, sister affiliates and organisations were opposed to the government's imports deposit scheme which reduced the cash flow of many companies and supported the IMF/World Bank's demand for its abolition. The allocation of import licences was also quite unsatisfactory to business as it increased the production cost of companies through excessive documentation, bribery and purchase of the licences from party stalwarts at inflated prices. The business community was, however, wary about the IMF's insistence on devaluation, and the abolition of the approved user scheme since they had not made any serious attempts to source their raw materials and spare parts locally.

The industrial scene was very volatile in 1983 as companies either closed down, resorted to compulsory leaves or reduced the working days. Many state governments could not pay salaries on time, social services deteriorated and the government's attempt to implement the Fund's recommendations on cost recovery in health and educational services met with stiff resistance from the students and members of the public. There was a general popular opposition to the government's austerity programme and its political legitimacy was later buried with the undesirable conduct and outcome of the general elections. The regime collapsed on 31st December 1983.

Buhari's military regime renewed the Economic Stabilisation Act in January 1984. The capital expenditure for the 1984 fiscal year was put at N3.93 b., below the IMF target of N4 b. When compared with the 1983 figure of N6.59 b. and that of the 1984 draft estimates of N4.66 b., there was a decrease of N2.66 b. and N0.73 b. which represented 40.3% and 15.6% respectively. The contentious compulsory advanced deposits were abolished and all invisible items of imports put under specific import licences. Import duties on agricultural machinery and farm projects were phased out and duties on wheat and tea reduced. Interest rates for deposits and lending, apart from those for agriculture, were adjusted upwards and the wage freeze was endorsed.

The main thrust of Buhari's adjustment programme was to further rationalise the domestic capitalist base, impose more discipline on Shagari's austerity programme, thereby implementing those aspects of the IMF's adjustment measures that did not entail trade liberalisation and devaluation. Recognising the potential difficulties with the IMF negotiations, Buhari attempted to fashion out an alternative adjustment programme that would combine the "positive" aspects of the April 1982 package with some of the "acceptable" IMF/World Bank recommendations and the policy prescriptions of the national economic council expert committee report. This was to be supported by alternative loans from non-Western sources, the promotion of counter trade and the raising of the debt service ratio to 44 per cent, with the hope that the Western creditors would reschedule the debts and open the lines of credit without necessarily insisting on an IMF seal of approval.

The government wrote to the Saudi Arabian government in February 1984 asking for a loan of N1.6 b., the balance of an original request of a N2 b. loan which the previous administration had requested. The government explicitly stated that negotiations with the IMF were expected to be difficult since the Fund would insist on a 25 per cent devaluation of the naira and the liberalisation of imports. These conditions, the government argued, would worsen the country's crisis because devaluation would increase the local cost of production and the general price level which would negate the purported benefits to the country's exports. This is because of the country's dependence on the importation of capital goods and raw materials which, the government insisted, could not be adjusted in the short run. Furthermore, because of the monocultural base of the economy and the pricing of the country's export commodities in foreign currencies under producer's organisations, devaluation was not expected to have any appreciable impact on the country's foreign exchange earnings. The debt service burden in naira terms, it was pointed out, would increase and wipe out any gains to government revenue from exports on which the IMF argument rested. Finally, the government maintained that the inflationary effects of devaluation would force workers to agitate for wage increases in order to protect their rent incomes. (Bangura 1986c)

Negotiations with the IMF resumed in February 1984. The government agreed to implement those policies that dealt with budgetary discipline and cost consciousness. For instance, the budget deficit was reduced from N6.2b. in 1983 to N3.3 b. in 1984. This was accompanied by a major retrenchment of workers in the public sector, the implementation of cost recovery measures in health and education and the introduction of various types of levies. But the government refused to remove subsidies from petroleum and adopted the principle of commercialising the parastatals in opposition to their privatisation. It abolished the approved user scheme but retained the national supply company to facilitate bulk importation of essential commodities; and insisted that the customs tariff review should not be linked to an adjustment of the exchange rate. It resolutely defended the existing exchange rate of the naira, the import licence scheme, which allowed for state planning of external trade, and offered to adopt a policy of trade rationalisation as opposed to liberalisation. (Cabinet Office 1985)

A stalemate ensued in the negotiations since the government flatly refused to accept the adjustment of the naira as the centre-piece of its adjustment programme. The Fund's observation, in 1985, of the regime's economic performance was quite scathing. While it agreed with the May 1984 budget as providing "the first strong signals of acceptance in principle that an adjustment strategy appropriate to the Nigerian economic and financial situation calls for effective demand management policies," it expressed dismay at the "increased expenditure on grants and subventions, mainly to parastatals," and the over reliance on the fiscal instrument in the restructuring of the economy. The Fund insisted that the government's demand management measures must "be combined with measures designed to correct the widespread and increasing distortions in cost and price relationships and in the incentive system that contributed to the lopsided growth in the past and to the present critical dependence on imports". In other words, "fiscal adjustment needs to be accompanied by effective structural adjustments in partnership with the private sector." (IMF 1985)

The gulf between the two sides widened. The IMF, acting through the US, blocked the loan application to Saudi Arabia; and stalled the negotiations with the creditors, thus putting considerable pressure on the economy. There was a general decline in economic performance at all sectors and a 31 per cent increase in the official composite consumer price index between December 1983 and August 1984. The government was forced to experiment with counter trade to sustain its imports supply as Western governments and banks refused to guarantee and open letters of credit for Nigerian imports. The high debt service of 44 per cent announced by the government did not succeed in softening the hard bargaining position of the creditors, particularly the Paris Club of Export Credit Agencies, who insisted on an IMF supervised adjustment programme before any concessions could be made in debt rescheduling.

The government started to make public its criticism of the IMF around mid-1985, accusing it of being a "bad doctor that prescribes the same medicine to all patients". (Gambari 1985) In fact the two principal figures of that administration, Buhari and Idiagbon, openly denounced the IMF and insisted that the EFF loan would not be taken.

If Buhari's adjustment programme did not satisfy the IMF, it completely alienated all sections of the Nigerian people. Stiff struggles were recorded with the students over the commercialisation of education and the non-recognition of the National Association of Nigerian Students; with the doctors over the health vote, conditions of work and the banning of the Nigerian Medical Association and National Association of Resident Doctors; with market women over levies and the demolition of their stalls; with the manufacturers over import licences and credits; with the press over the curtailment of press freedom; with past politicians over long prison terms; and with workers over the wage freeze, retrenchment and various antilabour decrees. The regime lacked a social base at home. It received the all-round condemnation of the Nigerian people for its violation of popular and human rights. The estrangement of the regime from both the society and the IMF strengthened the hands of the pro-IMF lobby who insisted that the government's "correct" austerity measures should be supported by an IMF-supervised structural adjustment programme. The collapse of the regime on August 27th, 1985 marked a watershed in the evolution of the country's structural adjustment programme. The power base shifted in favour of the group that supported an adjustment programme that revolves around a "market-determined" exchange rate and liberalisation.

THE NATIONAL DEBATE ON THE IMF LOAN

The new government was dissatisfied with the stalemate in the negotiations with the IMF. The president, Babangida, announced in his maiden speech that the government would "break the deadlock". (United Bank for Africa 1985) But breaking the deadlock required the broad support of the public since IMF conditionality would seriously erode the purchasing power and general standard of living of the mass majority of Nigerians. In order to judge the general disposition of Nigerians towards the IMF, and possibly get their support, the government announced a national debate on the IMF on 2nd September 1985.

Even though such a debate had been on since 1982, the officially promulgated debate allowed all sections of the public to be involved in a sustained, concentrated and systematic evaluation of the structural adjustment programme and the role of foreign finance in its implementation. The government concealed its preferred option - which was articulated by the monetarist-oriented Finance and Economic Planning ministers, Kalu Idika Kalu and Chu Okongwu - by its pursuit of broad confidence building policies such as the abrogation of decree four (which curtailed press freedom), the indictment of the Nigerian Security Organisation, the lifting of the ban on students' and doctors' organisations and its declared support for human rights and public debates.

The vast majority of Nigerians were opposed to the IMF. This opposition cut across class divisions as the broad sections of the labour movement, students, many civil servants, road side mechanics, market women, farmers, a substantial number of intellectuals and a section of the local business class came out openly to oppose the Fund. This group was, however, not cohesive. It contained three broad tendencies. The first was the bourgeois nationalist position which insisted on primarily internal capitalist solutions, such as the curtailment of waste, pruning of public expenditure, sourcing raw materials locally, freezing wages and planning the external trade sector and allocation of import licences to aid a vibrant indigenous capitalist class. Members of this group saw the IMF as a *recolonising instrument* which would not allow the indigenous entrepreneurs to make the critical choices that would propell the economy to selfsustained growth. Many orthodox intellectuals and journalists articulated these positions on behalf of a largely marginalised (if not non-existent) national bourgeoisie.

Closely related to the above was the position of the indigenous business class itself. It had no illusions about its inseparable relations with foreign capital but felt that IMF conditionality would give unnecessary advantage to the transnational companies. The big time traders, bankers, small and large scale industrialists were worried about the adverse consequences of devaluation on their limited capital base and lucrative business deals in foreign exchange. The local industrialists were also concerned about the distribution of import licences which the transnational corporations had dominated during the Buhari era. Opposition to the Fund was therefore a way of justifying their "patriotic credentials" for the subsequent rounds of import licences allocation.

The second group represented the urban, lower petit-bourgeoisie of traders, road side mechanics and road transport drivers. They occupy an intermediary position between the state/producers and the consumers. It is mainly through this group that the average consumer is exposed to the crushing effects of the adjustment programme. An excessive increase in prices and fares would undermine sales and expose the group to the wrath of the consumers (through riots) and government intervention. They therefore rejected the loan and showed tremendous enthusiasm, more than any other group, to substitute the IMF loan with an internally generated loan. Market women raised the possibility of a structural adjustment levy among their members and road transport drivers actually announced a 50k levy per day on members as their contribution to the economic emergency fund.

The third group were the socialists, represented mainly by the articulate sections of the students movement, the majority of the workers unions and the Nigerian Labour Congress (NLC), the radical intelligentsia led by the Academic Staff Union of Universities, progressive journalists and lawyers and all socialist organisations. The issue to them went beyond the loan and touched on the lopsided and exploitative relations between foreign/local capital and the majority of the working people; and the subordination of the Nigerian economy and society to the financial, investment and trade structures of the imperialist powers. Such subordination and exploitation, they argued, would be reinforced by the hard-hitting conditionality of the IMF. In opposition to structural adjustment, they called for a *structural transformation* of the economy that will redress the imbalance and exploitation in property relations, transfer political power to the working people, introduce a centralised planning system and remove the seed of commodity production that gives rise to crises.

Standing in opposition to these three groups were the transnational corporations, the big foreign banks and their local business allies who insisted on the need for an IMF loan for any significant progress to be made in the debt talks, the opening of credit facilities and the attraction of foreign private investment. The Finance and Economic Planning ministers and a host of government officials supported this position but found it difficult to impose it since the negative viewpoint was overwhelming.

The government did not wait, however, for the debate to be concluded before it introduced a state of economic emergence on 1st October 1985, which was to last for fifteen months. Under this state of emergency, a general pay cut for both the military and civilian employees was introduced, ranging from 2 per cent to 20 per cent. The NLC, supported by many industrial unions, threatened to call a general strike if the government did not rescind its decision. They were not consulted on the decision to cut workers' pay.

The Anti-IMF camp was, however, fragile, divided and weak. The NLC's opposition was crushed by the government, which received solid support from the road transport drivers, the leadership of the Non-Academic Staff Union and Civil Service Union, large sections of the press, local business groups and transnationals. Most of the groups that opposed the IMF loan argued that the pay cut was a necessary sacrifice for rejecting the IMF loan. Such logic strengthened the hand of the government and tilted the balance in favour of the Pro-IMF group. At that stage it was clear that the government could reject the IMF loan and still pursue IMF structural adjustment measures.

By the end of November 1985, the government had succeeded, through the media, in narrowing the debate to a simple question of whether or not to take the loan, with the strong anti-conditionality arguments of the socialists given less prominence. The socialists could not translate their opposition into mass political action. Their alternative programme made sense only within the context of the restructuring of power relations in the state and economy. But their intervention in the debate stayed primarily at the level of fine arguments which were ignored by the minority who had the state instrument at their disposal. The government announced the rejection of the IMF loan on 12th December 1985.

The government insisted, however, that there were no winners or losers in the debate. The Foreign Minister, Akinyemi, was given the task to explain the government's correct position to the Western governments and creditors. The 1986 budget, announced on 31st December 1985 showed that while the

Nigerian people "had their say" the government and the pro-IMF group were determined "to have their way". The budget contained most of the demands by the IMF for an adjustable exchange rate-led structural adjustment programme such as establishing a "correct-market determined" value for the naira, the removal of subsidies from petroleum products, privatisation of "commercial parastatals", an incentive package for export industries, the scrapping of the NNSC and the commitment to liberalise the economy through a new custom tariff structure that will eliminate the import licences scheme, and other controls. (United Bank For Africa 1985b)

The Western governments and creditors were quite supportive of the budget and showed a new found willingness to offer concessions in the long drawn out debt talks. What remained was the blessing of the IMF for a more comprehensive rescheduling of the debts. This was why, first the president, and later his Finance Minister, refused to accept the public's rejection of the IMF loan as constituting a total rejection of the IMF itself. The President maintained in an interview with the London-based *Financial Times* that the IMF could still play a higher surveillance role in Nigeria. The newly appointed Finance Minister, Okongwu, reinforced this view when he insisted that the Nigerian public rejected the standby facility but not the burden of structural adjustment and spoke of the need to reach an understanding with the IMF and the "world financial community." (*West Africa* 7/4/86) The Finance Minister was able to reach a temporary agreement with the London Club of creditors for a 90 day moratorium on the medium and long term debts estimated at N7 billion.

THE SECOND TIER FOREIGN EXCHANGE MARKET AND THE MYTH OF MARKET FORCES

Even though the 1986 budget called for a commercially determined exchange rate, it was not until June 27th that the government spelled out the central role which the exchange rate would play in the adjustment package. The two year structural adjustment programme which was to run from July 1986 to June 1988 placed considerable emphasis on the price mechanism as the foundation of the on-going demand management policies. The exchange rate of the naira was to be determined by "market forces" at a second tier foreign exchange market (SFEM). Funding of the market was to come from the oil revenues, foreign investment, the domiciliary account and a special loan from the World Bank.

The World Bank loan of US$450 m. titled Trade Policy and Export Development Loan was signed on October 16th, 1986. This was to be disbursed very quickly to enable the trade and domestic price reform measures to be pursued with less difficulties. (World Bank 1986) The foreign exchange market became operational on September 29th 1986. All private and government transactions, except debt service obligations and international subscriptions, were to be undertaken on the SFEM. The exceptions were to be funded in the first-tier market which would be allowed to depreciate until it converged with the second tier market. A major move was also made to liberalise the economy by abolishing the 30 per cent import surcharge, reducing the number of banned import items from 74 to 16, and revising the domestic tariff structure.

In practice, however, the SFEM is not a free market. Foreign exchange is not allocated to the highest bidder whether through the inter-bank bidding sessions or the public. Nobody can just enter a bank and bid for foreign exchange at any rate. Although some of the bureaucratic delays in the disbursement of foreign exchange have been minimised, documentation, and by implication corruption, has not been eliminated. Business applications are to be supported by "satisfactory evidence of a valid, due or outstanding obligation in respect of commercial service or a capital transaction". (United Bank For Africa 1986)

The exchange rate is determined on the basis of weekly bidding/price-fixing sessions between the authorised dealers of 45 commercial and merchant banks on the one hand and the Central Bank on the other. During the first two bidding sessions the three largest banks (United Bank For Africa, First Bank and Union Bank) and the Central Bank were allowed to bid for a quota of 10 per cent each of the available foreign exchange, whilst the remaining banks got a quota of 7 per cent each. This was later reduced to 5 per cent for the big Four and 3 per cent for the rest. The various banks were free to utilise their quota if they were successful in their bids. Every week, the accredited banks indicate the rate at which they would want to acquire foreign exchange. Their quoted rates are supposed to be influenced by their customers' demand for foreign exchange. At the first two sessions, the average rate of all the successful bids was used as the effective rate for the week.

The first two sessions produced very high rates for the dollar, resulting in a massive devaluation of the naira from N1 to US$1 in January 1986 to N4.6174 and N5.0580 to US$1 respectively (a 4 1/2 to 5 fold devaluation). The banks came under tremendous pressure from the Central Bank to moderate their offers and behave more "responsibly". The Governor of the Central Bank threatened to use his powers of intervention to discipline erring banks. The idea was that bank officials were supposed to know the actual value of the naira which should be determined by the productive capacity and foreign exchange position of the economy. These more subjective factors, not mythical market forces, were supposed to guide the bidding sessions. After all, this was why the government refused to allow an untrained and unpredictable public to bid directly at the SFEM. When the bankers refused to heed the warning the Central Bank (CBN) changed the rules of the game by reducing the quotas of the various banks, to raise the number of successful bids and switching from the average to marginal rate to allow for a depreciation of the effective rate.

The marginal rate went down to N3.4999 in the third session. But the fourth and fifth sessions saw a further depreciation of the naira to N3.9101 and N4.1775. The CBN ordered the actual names of the dealer banks to be made known for the sixth session instead of the code numbers that were being used in the previous sessions, hoping that such a policy would act as a restraining influence on the banks. But when the bids were announced, the lowest successful bid, quoted by NAL Merchant Bank, was N4.2062. But, rather unexpectedly, the deputy governor of the CBN announced an additional US$11 m. to the original US$75 m. to be auctioned; thus allowing five more banks to be added to the successful list. This brought down the marginal rate to N3.8525.

Thus, it was clear that the government did not want the exchange rate to hit the N4 to US$1 mark. A ceiling was thus established for the "market forces". What remained was the floor rate. The marginal rate thereafter did not go beyond N3.6. In fact there was a general appreciation of the naira in subsequent weeks, partly because of the liquidity crisis (a by-product of SFEM), but mainly because of Central Bank intimidation. The twelfth session actually saw an unexpected appreciation of the naira to N2.9990. But the CBN vetoed the marginal rate of the "market forces" and for the first time fixed its own rate at N3.2000. Thus a ceiling and floor rate have now been established for the naira by the monopoly power of the Central Bank. Market forces are now free to fluctuate between these bands. The implication of this is that the government has decided, independently of what the market says, to devalue the naira vis-à-vis the dollar by about 220% and 280% from the parity rates of January 1986. This represented a more than three fold devaluation (320%) when set against the value of the naira in 1981 (N1 = US$1.63). Yet, it should be obvious, even to the Central Bank and the IMF, that the value of N3.2 worth of goods in Nigeria is higher than the value of US$1 worth of goods in the United States.

THE IMPACT OF SAP ON THE ECONOMY AND SOCIETY

The primary objective of the structural adjustment programme, as we have seen, is to roll back the state's involvement in the economy through a process of exchange rate and domestic price deregulation that will allow the

Table 2. *The naira's rate at SFEM*

Weeks	1	2	3	4	5	6	7
US dollar	4.6174	5.0839	3.4999	3.9101	4.1775	3.8525	3.6000
Weeks	8	9	10	11	12	13	
US dollar	3.4993	3.4599	3.4945	3.0005	3.2000	3.3166	

market mechanism to allocate resources efficiently. But the programme's implementation is being haunted by the very distortions it seeks to eliminate. The old ways of doing things are too deep-seated to allow for a clean break with the past. State officials and the ruling class are worried about the political costs of unregulated market forces, despite media assurances that all is, and will be, well. Some of the policies have either been delayed, haphazardly applied or regulated by the state to avoid the full effects of price adjustments and deregulation to upset the rather tenuous and volatile social and political balance.

Privatisation, for instance, is still very much an explosive issue. Apart from having to contend with the sustained opposition from the public, the implementation of the policy is already causing problems for the state and the "private forces" that have taken over some of the parastatals. The scrapping of the marketing boards have led to the proliferation of many oligopolistic companies such as that being organised by the Textiles Association of manufacturers around cotton and the Cocoa Association of Nigeria, comprising of the major cocoa exporters, buying agents and big-time producers. In the case of the latter, the price of cocoa has increased from N3,000 at the on-set of the current season to an all-time high of N6,000, thus wiping out the profit margins of the exporters. The smuggling of the commodity to high rate-paying franc zone neighbouring areas (the CFA franc has appreciated considerably because of SFEM) and the illusions of prosperity that are to follow the free market system have produced such results. The Cocoa Association of Nigeria has threatened to introduce the old "discredited" ways of regulating the buying price of the cocoa beans next season if the policy of increasing non-oil exports is to succeed. (Business Concord 2nd January, 1987) Some state governments are also making frantic efforts to introduce state-support programmes for the export commodities.

Closely related to the above is the rivalry between the northern and southern members of the Manufacturers Association of Nigeria (MAN) over the modalities for the privatisation of federal parastatals. The Kano branch of MAN is insisting on regional equity (which calls for quotas and controls) whereas their southern counterparts are defending the case for floating the companies in the stock exchange where the market will determine the allocation of shares. Thus, even though privatisation was made the corner stone of the January 1986 budget, the number of privatised companies is still limited.

A similar problem can be found in the debate on the effects of SFEM on prices. Before the announcement of SFEM, both the government and the IMF/World Bank expected the price level to shoot up in the short run as part of the process of adjustment. But currently some ardent supporters of SFEM are contending that SFEM has not only established a correct value for the naira but has also brought down prices through its effective regulation of the money supply. SFEM, of course, has created a liquidity crisis by withdrawing about N3 billion from the banking system. Most banks have devised various strategies such as the high interest rates on short term deposits to attract savings from an already cash-starved public. But the defenders of SFEM are confusing the arbitrary increase in prices with the actual price system being influenced by cost considerations. The composite consumer price index rose astonishingly from 264.2 in 1982 to 326.8 in 1983 and 455.4 in 1984, with 1975 as the base year. (Federal Office of Statistics 1984) The prices of essential goods like sugar, milk, detergent, soap and cooking oil also went up dramatically in the run up to SFEM as traders believed that the free for all that accompanied devaluation in Ghana, Sierra Leone and Uganda would repeat itself in Nigeria. Many companies were also trying to stockpile naira through price increases in order to intervene in the foreign exchange market.

Prices of some of the goods have actually gone down but not to the level they were six months ago. The structural adjustment programme has, over the years, eroded the purchasing power of the average consumer. SFEM has only made matters worse. The poor Christmas sales and the sudden increase in TV commercials underscore this position. Goods are not selling; warehouses and stores are full; the turn-over is low. As orthodox Keynesian economists (Aluko 1987) are now beginning to point out; the general deflation does not augur well for the development of the economy. The crunch will come when "SFEM goods" begin to appear in the market. Some of these problems have already emerged with the airlines and vehicle assembly plants where prices have gone up by 94 per cent and 300 per cent respectively; and with the local transport owners who have been itching to raise fares.

The dangers of an uncontrollable price war are real. Government has, therefore, launched a "campaign against the rising cost of living". There are huge posters advising the public to "discourage exploitation!" and a specially composed song appealing to the patriotic sentiments of the people:

> Stand up and defend the national economy. Boycott the boycottable, buy made in Nigeria goods. Without me, you and the middleman, hoarding and inflation cannot survive. Be a good Nigerian. If it is expensive don't buy it. (*Guardian,* December 6th, 1986)

A row has developed between the government, MAN and several traders, industrialists and transporters over who is to blame for the price increases. The MAN has protested against the "don't buy" campaign; and a series of talks has been held with the airlines, autoplants and transporters over price increases. The government has flatly refused to allow the foreign airlines to raise their fares by 300 per cent, commensurate with the rate of the naira's devaluation, forcing the latter to scale down their activities and facilities; and it has worked through some loyal transport owners, much against the position of the rank and file drivers, to prevent an increase in transport fares. Government would, of course, find it difficult to hold down wages against uncontrollable all-round price increases, more so as the Nigerian Labour Congress has given notice to have "free collective bargaining in a free exchange rate system". (Nigeria Labour Congress 1986) It would seem that the disciples of monetarism are actually afraid of the spectre of market forces! A choice will have to be made between the commitment to text book theories of structural reforms and the imperatives of political survival. Such a problem was anticipated by the World Bank during the debate on the "Trade Policy Loan" when it observed that there was "lack of commitment in practical terms by the government to really undertake reforms". (World Bank 1986) The adjustment programme will continue to throw up such contradictions.

Industrial production declined by about 75 per cent in the first half of 1986 in the Lagos area where most of the manufacturing companies are concentrated. According to a Central Bank survey the least decline of 5.9 per cent was in the textiles industry whilst the highest decline of 74.8 per cent was in the soap and detergent industry. The cost of production also rose substantially by 43.5 per cent to N645.2m. (*Business Concord,* November 7th, 1986) Thousands of workers have been retrenched and those on the job have been subjected to ad-hoc working arrangements, such as compulsory leaves and reduced work days and schedules.

The collapse of oil revenues drastically reduced the amount of foreign exchange that would be made available for the importation of raw materials, spare parts and machinery. SFEM has not generated any appreciable increase in foreign exchange, whether through the much acclaimed domiciliary account, the flow of new foreign investment or non-oil exports. Companies have therefore come to adjust their production targets to the dictates of the available foreign exchange and the absorptive capacity of the market. Thus, even though the turnover of companies has considerably reduced, profit margins have not been seriously affected.

Of course, the high cost of production has forced many companies to look inwards, by sourcing their component parts and raw materials locally. The Central Bank reported recently that the value of locally sourced raw materials rose by 19.6 per cent in the first half of 1986. There has been a major drive to the land by the big companies (Andræ and Beckman 1985), anxious to overcome the constraints of high import costs. But the rate of success in this area is going to be uneven as the interim report of the raw materials committee of MAN has observed. (Manufacturers Association of Nigeria 1985) Agro-allied industries have a greater potential in the local sourcing of raw materials than the chemicals, engineering steel and aluminium industries; the latter require a petro-chemical plant and major investments and progress in the iron and steel sector. The government's package of incentives seem to support mainly export industries rather than import-substitution industries which have a focus on domestic consumption. In fact, the advantages enjoyed by domestic industries are being eroded by the new tariff structure, much against the protests of the MAN. Even though the government has promised in its 1987 budget to carry out a comprehensive review of the tariff structure and to provide a set of incentives for local raw material procurement, their impact on industrial performance should be viewed from a long term perspective.

The industrial crisis has undoubtedly generated counter-tendencies from the producers who are determined to stay in business. But the process of contraction and adjustment outweighs the anticipated positive growth points at the moment. Even by World Bank estimates, the perspective for growth is very long term (1987-1995) and "hardly represents the Baker initiative's promise of adjustment with growth or growth-oriented adjustment", since "the available financing is far from sufficient". (World Bank 1986)

The shift from industrial adjustment to growth will depend, in the final analysis, on the balance of social and political class forces. One of the reasons advanced by the World Bank for disbursing the Trade Policy Loan without the usual tranching was to strengthen the hands of the regime against domestic opposition. The credit lines have been opened, all multilateral debts have been rescheduled and the World Bank has committed itself to a US$4.2 b. loan to the country over the next three years. But the implications of a massive devaluation of Nigerian labour and the high cost of living are bound to play themselves out in the industrial and political levels. The confidence of most workers has been eroded by the unemployment - generated effects of the structural adjustment programme and the failure of many state governments to pay salaries and gratuity on time. There have been a series of industrial actions, the most famous being those organised by the public sector unions in Ondo, Benue and Niger states, the Lagos State Property Development Corporation's workers, the National Union of Teachers in Bendel and the Nigerian Union of Railwaymen. Industrial relations are also very volatile at the private sector as demonstrated by the disputes in the automobile, textiles and bank sectors. Even though the bargaining strength of the industrial unions has been eroded by the recession, the administration has not succeeded in coopting either the leadership of the labour movement or their rank and file. If anything, the recent confrontations between the authorities and the students over the killing and brutalisation of students at Ahmadu Bello University, in which the NLC played a prominent role, showed that relations between the state and labour are anything but cordial. NLC leaders were detained and their headquarters occupied by the law enforcement agencies when the former attempted to hold a national rally on June 4th in support of the students. Later, the Academic Staff Union of Universities and one senior staff association were disaffiliated from the NLC.

The NLC's seven point demands to the Presidential Advisory Committee on the 1987 budget for a general wage increase, the establishment of free collective bargaining to correlate with the free play market forces, a planned allocation of the foreign exchange to the various sectors of the economy and a refund of the salary deductions of the economic emergency period to all categories of workers have largely been ignored by the government. The only concessions in the 1987 budget were the reduction of the tax on incomes and the decision to allow for collective bargaining to determine the level of transport allowances, but not wages. Some of the contradictions of the structural adjustment programme will begin to mature in 1987 raising serious questions on the extent to which the government will continue to ignore the demands of labour and other popular forces.

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8. Economic Disarray and Dependence: The Case of the Sudan*

Just Faaland

GROWTH AND DECLINE

In the early 1970s, Sudan embarked on a very ambitious development programme, commonly referred to as the "Breadbasket" strategy. This strategy was to be in large part sustained by the availability of Arab funds, and by the favourable world market situation for breadbasket crops such as cereals and sugar, and was based on the belief and judgement that the Sudan could, with adequate external financing, develop its vast agricultural resources to provide needed food security for the wider region. Through this strategy, three important objectives, amongst others, were expected to be attained by the mid-1980s: (i) the diversification of the export base (especially important in view of the marketing problems experienced for cotton exports), (ii) the promotion of import substitution in industry (particularly those which could utilize domestic resources), and (iii) the building of infrastructure for sustained growth and development (particularly in the transport and energy sectors).

In the period up to the beginning of 1978, an estimated US$3 billion in external resources were mobilized for the public investment programme. Almost all of this was invested in new and capital-intensive projects, while the traditional sector in general and existing facilities in particular were largely ignored.

Increased development spending induced general expansion in the economy and fostered economic growth, which averaged 8% per year during the period to 1978. But while the economy was growing, also

* This presentation draws in part on the author's experience from visits to the Sudan in September and November 1986 under ILO and IFAD auspices, following a major review of the economy a decade earlier in which this author was also centrally involved, see *Growth, Employment and Equity. A Comprehensive Strategy for the Sudan*, ILO, Geneva, 1976. The analysis presented in this paper only commits the author, it is not necessarily shared by any international agency or indeed by the Government of the Sudan.

adverse developments were taking place. The increased spending did not lead to a commensurate increase in the supply of domestic goods or in export earnings. Some of the major new projects proved to have gestation periods longer than anticipated, many have experienced cost over-runs and others were never finished. Meanwhile, the revenue-generating capacity of existing schemes and traditional agriculture worsened and cotton production declined. Production of favoured non-cotton cash crops, such as groundnuts, increased but export earnings continued to decline.

In recent years, the performance of the Sudanese economy has been poor indeed, resulting from a number of adverse factors, including the conflict in the South, the influx of refugees and above all the drought as well as adverse changes in the external economy and deficiencies of governance.

The conflict in the South continues to be a major political and economic problem that threatens the future development of the country. Its cost in terms of human suffering is naturally beyond estimation, and the direct economic cost of the conflict could be as high as £S 1 million a day. In addition, the Sudan has to bear much of the cost of civil strife outside its borders: up to 2 million refugees are believed to have entered the country in recent years from neighbouring countries. Moreover, the 1982-84 drought was nothing less than a disaster for vast numbers of Sudanese and for the national and local economy. Agricultural production fell dramatically, and millions of livestock were lost. At the peak of the drought (1984), as many as 1.5 to 2 million people were forced to relocate, and more than 8 million people received food aid.

Fortunately, most areas affected by the drought received good rainfall in 1985/1986 and again in 1986/1987. In 1985/1986 there was a real increase in the GDP estimated at about 7% and further improvement is expected in 1986/1987. This welcome gain has arrested the trend of economic decline but there is still some way to go before the downward slide is fully reversed. Thus GDP of 1985/86, for instance, was still only at roughly the level of the mid 1970s when the population was about 30% lower. Per capita income in the Sudan is currently estimated at US$ 375 which is lower than the Sub-Saharan Africa average by some 15%.

A most serious concomitant of the dismal overall performance of the economy is that gross investment, as a percentage of GDP, has declined to 11% or nearly half its level in the early seventies. This is not even sufficient to maintain existing productive capacities and leaves nothing to sustain economic expansion exceeding population growth. The decline in the rate of gross domestic savings has been still more dramatic, dropping from an already low level of 6.3% of GDP in 1977/78 to a negative level of 3.3% in 1981/82, representing a marked national dis-saving. Currently, the savings rate is about zero. The government sector has been consistently dis-saving, at least for the last six years, and the private sector has been more and more discouraged by the lack of what are thought to be sound investment opportunities. What private savings there are, moreover, are channelled into (unregistered) foreign assets or into commodities and commerce rather than production and production facilities.

Overall public finance management in the Sudan has for many years been such as to be best characterised as a part of the country's economic problem rather than an instrument for its solution of containment. The deficit in the budget in 1985/86 amounted to a staggering 18% of the GDP. On the revenues side, the amount raised in taxes corresponds to only about 10% of the GDP; in 1987 the percentage may decline even further, as it has in recent years. Direct taxes represent only about 20% of all tax revenues. The fiscal deficits, as well as those arising in the large sector of public corporations, have been financed primarily through monetary and credit expansion. As a result, there have been strong upwards pressures on prices, producing an annual rate of inflation as high as 27% on the average for the period 1978/79 to 1983/84; during the last two years the rate is believed to have been above 30% and may be rising.

The external sector is characterised by low import capacity, persistent trade account deficits, negligible foreign exchange reserves, and above all the foreign debt problem dominates the external economy. Exports are almost exclusively agricultural. Imports are much more diversified and tend to grow much faster than exports. In fact, the Sudan's own import capacity, which is determined both by the quantity of exports and the terms of international trade, declined by well over one-third in the decade to the early 1980s.

Under these circumstances, imports are subject to an elaborate system of control. Essentials such as crude petroleum, agricultural inputs and medical and pharmaceutical products for the public sector are imported at the official exchange rate. Other goods such as spare parts and petroleum products are imported at the (more expensive) commercial rate but according to licenses and priority lists. The importation of luxury goods, a list of which now numbers 100 items, is banned altogether. However, illegal imports are large, some estimates suggest they may amount to one-half or more of total imports.

To economise on the use of foreign exchange, the Sudan has in recent years turned increasingly to bilateral counter trade agreements. The agreement with Saudi Arabia could be particularly important: it could provide Sudan with imports and free foreign exchange worth in total as much as US$ 1 billion a year for a three year period.

The foreign debt situation is both complicated and extremely serious. According to World Bank estimates - based on most favourable assumptions - the Sudan's debt servicing capacity is no more than 20% of the value of its exports; for 1986/87 export value is expected to be just short of US$ 800 million. Yet, the debt overhang involves more than US$ 2 billion in arrears (as of end of June 1986) and in addition more than 1 billion falling due in 1986/87. At end 1986, total foreign debt amounts to an estimated US$ 11 billion. Rescheduling is done on an *ad hoc* basis, and much of the increased debt burden is due to rescheduling rather than to new flows of credit.

ECONOMIC POLICY

By 1978, the expansionary economic policy associated with the bread-basket strategy had run its course, and a new policy was formulated under the guidance of the IMF and the World Bank, to give emphasis to the revitalisation of agriculture, the promotion of production of exportable crops, and the reduction of overall demand through monetary and fiscal measures. In addition, the pressures on the external balance were to be lessened by an active foreign exchange policy. In subsequent years the government did take certain measures within the framework of the declared policy: it devalued the Sudanese pound several times, it adjusted the nominal interest rate upward, and it administered significant increases in prices of key consumer goods, such as petrol, sugar and wheat. In agriculture, the government focused its attention on cotton: cotton tenants benefited from successive devaluations, the government provided them with extra incentives by abolishing the so-called joint account system which had favoured other cash crops and discriminated against cotton. In terms of cotton production this policy produced results in the early years, but improvements were short-lived. Other sectors of agriculture and the overall economy generally, however, continued to deteriorate, and the substantial increase in petroleum import prices and the general deterioration in terms of trade added to the difficulties.

Arguably, the failure of the new strategy was due to the declared policy of stabilization and adjustment not being implemented vigorously enough. Most measures taken, so the argument goes, were either insufficiently strong or came too late or both.

In the Sudan in recent years, it is clearly not so much the introduction of specific economic policies at any specific time - or the failure to take such measures - but the cumulative effect of a general thrust of policy which determines the position and direction of the economy. Before the Sudan embarked on the expansionary policy in the early 1970s, its economy had been in a state of fair balance both domestically and externally: negligible inflation and a manageable balance of payments. It was in the course of the rapid growth policy that the seeds of disequilibrium were implanted. Unfortunately, disequilibria tend to be both mutually reinforcing and self-perpetuating.

It is easy - and relatively non-controversial - to point out several areas of economic policy failure. The principle of comparative advantages was partially violated when the traditional agriculture and livestock sub-sectors were virtually excluded from the government development drive. The concentration of investment in the modern sector overestimated its supply response to increased investment and underestimated the foreign exchange requirements of its capital-intensive operations. The planners failed to recognize the financial implications of investing in infrastructure and in capital-intensive projects with long gestations; and this in a situation where more than half of the investment funds came from external sources. The authorities may have overestimated the extent and permanence of the availability of external financing. In the important area of prices, including foreign exchange rates, deficiencies of governmental policy are evident and severe imbalances and strains persist.

Financial stabilization and "correct" price structure has been a major but elusive objective of economic policy in the Sudan since 1978. A central feature is to bring the inflation rate down to a manageable level. This objective was not achieved at all, and so far appears to elude the present government. The difficulty is not that the causes of inflation are unknown, but that the curative measures are hard - perhaps impossible - to accept when it comes to their implementation. In the eyes of urban public opinion, price increases result from the actions of exploitative power groups and speculators.

A most disappointing aspect of the management of the Sudanese economy has been the inability to stem capital flight. The emigration of Sudanese workers gave an opportunity to attract private capital from overseas. To some extent this has happened, but not on the scale that might have been hoped. Emigrants continue to keep substantial assets abroad and are unwilling to invest them in the Sudan in more than limited amounts. The inflow of migrants' remittances, to the extent that it has occurred, has also not served to support economic development to any marked degree. However, it has led to a much greater supply of consumer goods than would otherwise have been possible, mitigating the pain of the crisis on the standards of living of those Sudanese who could afford them. Through the resale of luxury imports much of the inflow has fallen into the hands of the rich. Remittances have often been used for the purchase of consumer goods or land, or been seized upon as an instrument of capital flight, although they have given some support to the informal sector. Nevertheless, little of this movement has served to promote development. Nor has return of migrants done much to enhance the productive use of skills. A relatively high proportion of returnees has been unskilled and has found it difficult to obtain gainful employment or to set up new businesses.

While the money earned by workers abroad has provided a major vehicle for capital flight this has not been the only channel that has been utilised. Uncertainties about the future of the Sudan, inflation, the relative security of deposits abroad and the prospects of a greater return of money invested there, as well as the malfunctioning of the Sudanese economy, and the limited investment opportunities it offers, have all served to make businessmen look for outlets elsewhere. This problem has been compounded by the changing tastes in consumer products related to emigration and remittances. Even in the case of those operating productive activities in the Sudan there is evidence of a wish to spread risks by developing business interests in other countries, including manufacturing operations.

One must also include in any list of "what went wrong with policy", the shift since 1978 essentially to crisis management, applying short-term, shifting policies, lacking a clear sense of purpose or vision of development. Frequently changing foreign currency regulations, experimenting with liberalisation, producing only three-year rolling investment programmes instead of development plans - these and other ad-hoc experiments certainly contributed importantly to the undermining of productive activity and the general disarray.

There are clearly a multitude of reasons for the failure of the Sudanese economy to progress during the last ten or so years and for the resulting disarray. No single cause is in itself sufficient to explain the decline. And no single cause operates in isolation from the rest; in total they are mutually reinforcing and the overall impact of their effects is greater than the sum of their direct effects. Much of the responsibility for failure must rest with government, but the international community and agencies also failed to appreciate the difficulties assailing the Sudanese economy, and the policies urged on the Sudan by international agencies may have compounded the country's difficulties.

TRADE AND AID

The views and preferences of donors have played a disproportionate role in the determination of investment priorities for the Sudan (if for no other reason than a failure of Government to formulate and implement its own plans and policies). While the inevitable difficulties and strains in the transition to implementation of an effective economic strategy can be mitigated by donor support, no level of donor support can substitute for the policies themselves or the national effort needed to make them effective.

Much aid in the past has not paid sufficient attention to the possibilities for rehabilitating or creating productive capacity - in industry and agriculture -

which takes advantage of local resources and local requirements and strengthens domestic linkages. The reasons for the bias lie both in the way Government has handled decisions on foreign-financed projects in the past and on the priorities of donors. Sometimes donors have tried to promote a more domestically-oriented approach, e.g. in the traditional sector, without striking a responsive chord in the Government. This underlines the need to strengthen the planning and policy coordination functions of Government so as to respond more effectively and actively to priorities expressed in different sectors, to develop and strengthen the potential complementarities between sectors and regions, and to resist donor and domestic pressure for discrete and visible projects.

A number of schemes and considerable installed capacity are highly dependent on imported inputs. The expansion of development spending and related debt in the early and mid 1970s made an important contribution to the fiscal and payments crisis in the late 1970s and 1980s. The aid was too often earmarked for new capacity with long gestation periods, which reinforced the difficulties faced by existing projects and schemes, and failed to achieve results commensurate with and in advance of the repayments burden. Given the continuing and foreseeable low import capacity of Sudan it would seem essential to consider carefully the longer-term import requirements implied by aid - whether in loan or grant form, whether for new capacity or rehabilitation. This requires more assertive and confident planning and coordinating machinery. It is not a question to be left to the engineers and to politicians, at home or in donor countries, who may stand to draw short-term gains from a high cost, showy project.

There are substantial differences in the terms on which Sudan receives aid from different donors. They range from outright grants, mainly food aid, to interest-free loans from China, South Korea, Egypt and Algeria; less than one per cent interest for IDA, OPEC and some IFAD, Qatar and Islamic Development Bank loans; 1-4 per cent for most loans from US AID (other than PL 480), Saudi Arabia, Abu Dhabi, Iraq, the USSR, Bulgaria, Hungary; seven-eighths to two per cent above LIBOR for some US bank loans, Eurodollar loans and Libya; and rates of 8-11 per cent for some loans from Kuwait, Romania, the GDR (and even 11.5 per cent for a wheat facility). The African Development Bank has charged 7 per cent, the World Bank 4 1/8 to 6 1/4 per cent, the Arab Fund for Economic and Social Development 5 per cent. The rates applying to rescheduled debt are significantly higher - as much as 18 per cent. In fact much of the increased debt burden is not a result of new credits, but just rescheduling, a process of obviously limited value in the case of the Sudan. All but the most concessionary terms are clearly unbearable for the Sudan for the foreseeable future.

It is of decisive importance to the Sudan that an acceptable international solution be found to its excessive debt burden. The relationship of debt obligations to exports and payments capacity is totally out of gear. It has been suggested that the Sudan's current debt servicing capacity, on favourable assumptions, is no more than 20 per cent of exports (which are expected to be US$ 590 million in 1986/87), compared to actual payments averaging 33 per cent over the past five years. The World Bank's optimistic scenario of a 7 per cent real increase in exports and 3 per cent in imports (with effective devaluation and demand management) and a massive round of debt rescheduling, would not diminish the resource gap or improve Sudan's net debt situation because of an expected deterioration in the terms of trade. This result would be reinforced if, as some argue, devaluation does for structural reasons cause import prices to rise by more than export prices (causing worsening terms of trade), and domestic inflation exceeds the rise in export prices measured in £S so that no incentive to shift to exports is forthcoming from the devaluation. This again underlines the critical need to deal with structural imbalances in the real economy and to contain inflation.

The current policy of *ad-hoc* rescheduling is no longer helpful to the restructuring process, as it contributes to maintaining the climate of uncertainty; additional medium to long-term finance on the softest of terms is required. There is already evidence of a constructive response from Arab donors.

A sensitive issue in the Sudan at present is the extent of conditionality in foreign aid. Some tension is inherent in the relationship between donors and governments, the former offering aid with a number of objectives in mind, mainly related to longer or shorter run perceptions of economic, political or military interest or at best, to their perception of the most desirable path the economy should take. The only effective means of resisting having the pattern of development expenditures and commodity imports unduly influenced by those external powers is for the Government to know its own mind, formulate its overall plan, determine its own priorities and desired pace, and only then invite donors to support those aspects which require or could benefit from outside assistance. A government must be strong enough both to determine its priorities and to refuse donor "assistance" not in line with those priorities or which has inappropriate macro-policy conditionalities attached. The process needs the time it takes for Sudan to establish its own priorities, unswayed by the impatience of the outside world.

This brings us to the complicated issue of the exchange rate system appropriate for the Sudan, which has aroused so much controversy. The debate on the issue of foreign exchange policy is intense and highly emotional, not only in the Sudan, where the IMF and the World Bank have strongly urged the adoption of a set of policies in which devaluation has figured prominently. Some critics of the IMF argue that support for essential core reforms in the areas of fiscal and monetary policy and the civil service will be very difficult to obtain if the immediate steps include devaluation. Others are more extreme, in appearing to exclude any positive role whatsoever for adjustments in exchange rates. A polarised debate of this nature is hardly conducive to effective policy making; the issue of the foreign exchange rate as a policy instrument in the Sudan needs to be put in perspective and context.

As part of an overall solution to the problems of strains and stresses, imbalances and distortions that plague the economy today, a realignment of the value of the Sudanese pound will have its role. However, the exchange rate is not necessarily the central or leading element in turning the economy around. The basic requirements of policy are on the one hand, to create conditions for growth of output and increased productive efficiency throughout the economy, and on the other hand, and at the same time, to contain the use of resources outside priority areas of consumption and production. It is through such changes in the real economy that basic and lasting improvements will become possible in the evolution of prices, in monetary, financial and fiscal balances, in balances of trade and payments and in the sustainability of a more stable exchange rate regime.

The experience of the Sudan in recent years amply demonstrates that devaluations by themselves are ineffective in bringing about changes in the underlying imbalances in the real economy; even temporary relief fails to manifest itself. It is arguable that in the Sudan in the last six to eight years repeated devaluations and the expectation of devaluation have contributed to the problem of inflation rather than to its solution. Devaluation is a rather blunt instrument of policy. Its effectiveness or otherwise depends on a whole set of more basic changes being put in place and in readiness prior to devaluation and then firmly and persistently carried through. The success or failure of an anti-inflationary policy is fundamentally determined, not so much by any change (or no change) in the exchange rate or any other particular price, as by the extent and force of the other policies more directly affecting the volume and efficiency of production and the use of real resources. To focus on the external economy of trade and payments and on the rate of exchange as the central policy variable would be misguided; rather, prime attention should focus on policies to come to grips with imbalances and inefficiencies in the domestic economy, inter alia reducing the import dependence of exports and of industrial production, as well as strengthening intra- and inter-sectoral linkages. Once this is under way, consideration will naturally also be given to the foreign exchange regime, within which changes may then - and only then - be judged to be (or not to be) helpful and effective.

In any country in balance of payments difficulties there are political and tactical considerations that condition positions taken on the sensitive issues of exchange regimes, as indeed on those of planning and control versus price and market incentives. For a country as critically dependent on its external economy as is the Sudan today, political and tactical considerations extend to relations with major trading partners, foreign investors and creditors, international organisations and aid donors, etc. This raises profound questions of national sovereignty which can be answered only through a process of interaction within the country; a process in which external parties and institutions have no legitimate role beyond their contribution to the formulation of the questions themselves and their analysis.

For the Sudan, in its relation to external parties, only the formulation and determined implementations of a comprehensive and credible strategy for a revived and healthy domestic economy can provide the basis for a mutually acceptable relationship. Again this brings us back to the conclusion that the Goverment's attention and political will must now be concentrated on mastering the orderly management of the domestic economy.

9. The International Monetary Fund and the Zambian Economy - A Case

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INTRODUCTION

This paper treats the stabilisation programmes of the International Monetary Fund in Zambia. The Structural Adjustment Programmes of the World Bank will not be discussed. This is mainly to avoid the confusion generally common between the two programmes.

The presentation takes a sort of historical-analytical approach, where chronology is not strictly followed. A recapitulation of events is necessary, but in discussing them the authors feel free to emphasize certain events in an analytical manner.

Although Zambia became a member of the International Monetary Fund on September 23, 1965, it did not start using the Fund's facilities immediately. Zambia joined the Fund with a quota of SDR 50 million. Presently its quota is SDR 270.3 million.

The reason why Zambia did not use the Fund's facilities until the 1970's is mainly that copper, its main export commodity, was profitably mined with rising international prices and increasing output levels. In fact, Appendix II* shows that the highest copper output in tonnes was in 1969 when 755,000 tonnes were mined. It also shows that after that year the output of copper has been declining.

It is also clear from Appendix II that the price compared to the cost per tonne of copper was relatively high during the period 1964-1969. On average during these years it cost about Kwacha (K) 393 to produce a tonne of copper and the average price on the international market was K909. This represents a gross profit of K516.

This should be contrasted with the period between 1975-1979 when the cost of production exceeded the price paid for copper per tonne. From Appendix II we calculate the average price of copper for the period to be K1,095 and the cost of production to be K1,104. In other words copper production was being subsidised.

* The Appendices to this Chapter (appendix I-VIII) are printed on pp. 179-187.

A second set of problems can be read from Appendix I. One observes that at independence copper accounted for 43% of GDP, 61% of government revenue and 94% of export earnings. This can be contrasted with the period 1975-1979 when copper only contributed 14% to GDP, 3% to government revenue but still 90% of export earnings. It is clear then that when production continued at a loss during 1975-1979, it was carried out mainly to earn foreign exchange.

A third set of problems is related to the terms of trade. Appendix III shows that in 1975 the terms of trade dropped to only 43%, from 85% in 1974. After that year the terms of trade have remained low, with 1982 representing the bottom with only 22%.

The set of problems presented by the three tables in the Appendices are largely responsible for Zambia's balance of payment problems.

ELEMENTS OF ZAMBIA'S ECONOMIC CRISIS

It can be seen from Appendix II that copper output dropped by 9% from 755,000 tonnes produced in 1969 to 686,000 tonnes in 1970. At the same time the price fell from K1,048 to K1,011. The total effect of these movements was a considerable reduction in foreign reserves.

The drop in production was due to the collapse of Zambia's largest mine at Mufulira. After the collapse and flooding of the mine, output has never reached previous levels. It is the consequent reduction of export receipts that promted Zambia to use the Fund's Compensatory Financing Facilities and received an equivalent of SDR 19 million at the end of 1971.

The problems of output decline for copper did not end but continued as can be seen from Appendix II. Output in 1971 was even lower than in 1970. Consequently, in March 1972, Zambia purchased the equivalent of SDR 19 million under the gold tranche and later that year received another SDR 19 million under the Compensatory Financing Facility.

The mine was rehabilitated in 1972, however, copper production still remained low. With an equally low price the balance of payment position was not improved. This is particularly true if one considers the continually increasing prices of imports. The total effect of this development was low economic activity, deterioration of budgetary and balance of payment positions. The gross international reserves declined drastically from an equivalent of thirteen months of imports in 1970 to only four months of imports in 1972.

In view of these developments, Zambia approached the Fund with a request for a standby arrangement in the first credit tranche equivalent again to SDR 19 million to cover the period May 1973 to April 1974. The main objective of this financial programme was to limit the decline of Zambia's gross external reserves and the deterioration of the budgetary position. This amount was fully drawn by September 1973.

Characteristics of the first standby arrangement

Appendix III shows that in the period after 1970, the terms of trade were against Zambia. The import price index continued to rise, the export prices did not rise with the same rate and in most cases they were falling.

Although copper still contributed substantially to the government revenue, it is observed from Appendix I that the contribution in 1972 was only 19% and 29% in 1973. The result was a crisis in the budgetary situation as copper was the major source of revenue. It can be observed from Appendix I that in 1970, 58% of government revenue came from copper. A drop of this contribution to only 19% in 1972 was dramatic, such that the standby arrangement was to address this problem.

There were two major areas of crisis in the Zambian economy to be addressed by the first standby arrangement: (a) there was a need to limit the decline in Zambia's gross external reserves; (b) there was also a need to arrest the deterioration in Zambia's budgetary situation.

The measures taken to redress the situation concentrated on correcting the domestic economy. There were no specific steps required to diversify export earnings. The issue of export earnings was not even addressed. The only requirement in regard to balance of payments was that the government should continue with its liberal external payments policy. It therefore undertook to avoid the introduction of new restrictions or to intensify the existing ones in this respect. On the domestic scene the government was required to constrain expenditures, while at the same time implementing several revenue measures aimed at generating additional tax receipts. In addition, a wage freeze was imposed for civil servants and a limit was put to government borrowing from the Central Bank and the banking system in general.

Private sector credit was relaxed in order to encourage investments. This was in contrast to the restrictive credit policy of 1972 which led to excess capacity in production and increased unemployment in the economy.

In spite of the measures taken during the 1973/74 programme with the Fund, the economic situation did not improve. It can be seen from Appendix II that the price of copper did not improve significantly in 1973 in comparison to 1970. However, at the end of 1974, the price rose to K1,327 per tonne. The payment arrears which were accumulated during 1971-73, especially with ever increasing import prices, were not covered by the end of 1974.

By the end of 1975, there was a critical shortage of foreign exchange. The copper prices of that year dropped considerably to K794, a 40% price drop.

At the same time, it can be observed from Appendix II that there was a drop in output from 709,000 tonnes in 1974 to 648,000 in 1975. This is a drop of 9%. Increasing import prices, decreasing export prices for copper and reduction in copper output, all combined exacerbated the balance of payment position. The country's net official reserves had declined from SDR 135 million before the standby arrangement to a negative amount of SDR 39 million at the end of the arrangement.

Diversification of the economy

The deterioration of the balance of payments position and a further worsening of the budgetary situation at the end of 1975, forced Zambia to seek another one year standby arrangement with the Fund. Appendix I shows that while copper contributed 53% to government revenue in 1974, it contributed only 13% in 1975. Indeed there was an intensified pressure in the two areas identified earlier in connection with the 1973/74 standby arrangement, namely the area of balance of payment as well as the budgetary position of the government.

It was in response to this that Zambia in August 1976 requested another one-year standby arrangement with an amount equivalent to SDR 19 million. The programme in this case was aimed at diversifying the economy so as to reduce Zambia's vulnerability to the fluctuations in copper prices. This is the first time when the concept of diversifying exports is mentioned in connection to the Fund's programmes in Zambia.

The diversification of the sources of export receipts was intended to correct, in the medium term, the disequilibrium in the balance of payments arising from external and internal factors. Further, the 1976 standby arrangement aimed at reducing aggregate demand, while encouraging domestic production by implementing a set of measures covering wages, consumer and producer prices, the budget, money, credit and balance of payments.

In an effort to encourage agricultural output, domestic producer prices were increased substantially, with maize producer prices being raised by 25%. To constrain domestic aggregate demand, the government implemented a wage freeze for three years, subsidies on consumer goods were reduced by 60%. Government also undertook to reduce the budget deficit by cutting outlays especially on capital expenditures which was to be limited to on-going projects. Further, the structure of interest rates was adjusted upwards to encourage savings and restrain credit demand. Consequently, overall credit expansion was to be limited to 16% over the 1975 level.

Regarding balance of payments, the measures included the reduction in payment arrears and further liberalisations of restrictions on current international transactions. The government undertook not to introduce new restrictions or intensify the existing ones on current payments and transfers on imports. To assist the balance of payments position, the Kwacha was devalued by 20% in terms of the SDR.

Policy orientation of the 1976 programme. The major thrust of policy actions incorporated in the 1976 programme was demand management, aimed mainly at providing relief to the balance of payments. The success of the programme, however, depended largely on developments in the external field. As it turned out, the attainment of the objectives of the programme was deterred by a severe financial crisis arising from an unprecedented deterioration in Zambia's terms of trade. Appendix III shows that Zambia's terms of trade dropped from 85% in 1974 to 43% in 1975. This marked the beginning of a continuous drop in the terms of trade.

In addition to the crisis brought about by the adverse terms of trade, there were problems arising from the unsettled political conditions in neighbouring countries, particularly Rhodesia (now Zimbabwe). The transport problems caused by the closure of the southern route resulted in major problems for the export-import trade.

Despite efforts to reduce demand through increase in taxation and a freeze on wages, the objective failed to be achieved. Demand continued to increase both in relation to domestic and foreign goods. This resulted, among other economic movements, in the increase of imports which adversely affected the balance of payments situation.

Overall, therefore, at the end of the programme, the balance of payments deficit widened further from payments arrears which had gone up by SDR 88 million in 1976 increased to SDR 393 million by 1977. At the same time, gross foreign reserves amounted to only SDR 61 million or equivalent of less than one month's imports. As a result of these developments, the government intensified exchange controls. The consequence was shortages of imported goods which became progressively more severe, economic activity declined and inflation accelerated to an annual rate of close to 20%.

The 1976 programme had failed to achieve the intended goals of diversification of exports. Clearly, such a long-term goal could not have been achieved in a year.

A comprehensive programme

Faced with such a critical economic situation, the government decided to adopt a comprehensive programme which was supported by a two year standby arrangement. The amount of this standby arrangement was SDR 250 million between 1978 to 1980. The main objectives of the programme were to restore overall balance of payments equilibrium, to reduce the growth of domestic prices to a more tolerable level and to provide a setting for a resumption of economic growth. These objectives implied the maintenance of domestic demand at very low levels and with the consequence that the standard of living was expected to fall.

The achievement of the objectives was based on the assumption that the prices of copper would improve during the programme period. The terms of trade which were 33% in 1978, improved slightly in 1979 and 1980. The production level of copper continued to decline in 1979 and 1980 compared to 1978 (Appendix II). The price of copper improved somewhat during the programme period.

The reduction of the government budget deficit was one of the objectives of the programme. Appendix I shows that copper, which contributed 53% to the government budget in 1974, contributed 13% in 1975, 3% in 1976 and then nothing in 1977, 1978, 1979 and 1980. The budgetary situation caused by such a large loss of resources by the government created considerable headaches. The programme envisaged that the budget deficit had to be reduced. The deficits had been incurred to replace loss of resources from mining taxes.

The restoration of the financial viability of the mining companies was another objective of the programme. Appendix II shows that during the period 1975-79, the cost of production in mining was higher than the price of copper per tonne. The correction of this state of affairs was one of the objectives of the programme. In this regard, the mining sector was to suspend operations in certain high-cost mining sites and reduce some of the social services it provided to its employees. The mining industry was also to rationalise its operations which included considerable staff lay-offs.

In agriculture, measures were taken to expand the extension services, develop food production, export crops and sources or raw materials for the local industry. In an effort to improve the domestic terms of trade for farmers, agricultural producer prices were to be revised upwards annually. For a gradual recovery in industrial output, the supply of imported materials and other inputs was to be progressively eased. New investments were to be concentrated on quick-yielding projects with a high labour content and employing domestic raw materials.

An Industrial Development Act was passed with a view of attracting private foreign investments. Policies related to parastatal controls were relaxed such as simplifying the process for approving price increases on essential goods, requirements for borrowing and allowing them more autonomous management arrangements.

To limit private consumption, the policy of reducing subsidies was to be intensified with a view of eliminating it over a period of three years. This measure was supplemented by appropriate wage policies which included a freeze on wage increases especially for the public sector. Wage increases in the private and parastatal sectors were limited to those in existing contracts. The agreement also stipulated that any future wage rises were to be based on productivity increases, the need to encourage employment in labour intensive industries through appropriate relative factor prices and the progress made in stabilising the economy.

The orientation of the 1978 policies. The policy direction in the 1978-80 standby arrangement was what has come to be known as demand management. The thrust of these policies was the reduction of domestic demand. Both fiscal and monetary policies adopted were aimed at reducing consumption, increasing savings and improving the structure of demand in favour of investments.

Fiscal measures included the reduction in the overall deficit through increased revenue receipts, reductions in expenditure through subsidy cuts, freezing of new posts and keeping an unchanged level of capital expenditures.

Monetary measures included the limitation of government borrowing from the banking system in order to reduce credit expansion and inflationary pressures on the economy. The objective of credit and monetary policy was to supplement fiscal policy by bringing about the required adjustment in total demand and encouraging savings. Thus to allow a compatible total domestic credit expansion and to slow down the increase of the monetary base, measures were taken to reduce commercial banks' excess reserves by increasing their share in total bank lending to the mining companies and by absorbing excess reserves through a sufficient increase in the reserve requirements. At the same time, interest rates on deposits were increased by 1% point and commercial banks were allowed to raise their interest rates on loans. By maintaining strict control on domestic credit, the authorities intended to encourage the private sector to use foreign sources of financing, especially for imports, thereby relieving pressures on the balance of payments.

With the above measures, the programme required that the Kwacha be devalued by 10%. This was done on March 17,1978. The devaluation was aimed at improving the competitiveness and profitability of the export sector, and its diversification by developing and encouraging new exports and import substitution.

There was also to be an orderly reduction and eventual elimination of payment arrears in order to re-establish confidence in the economy abroad and restore normal trade links. To do this, Zambia sought extra external financial assistance from friendly governments, international organisations and private banks. For this purpose, the World Bank sponsored a consultative group meeting in Paris in 1978. This was the first time for Zambia to discuss with this group. The result of the meeting was that a substantial amount of financial resources were mobilised. With a view to improving its external debt servicing profile, the government decided to follow a cautious foreign borrowing policy in future.

The standby arrangement included quantitative performance criteria ceilings on total domestic credit which was to increase by not more than 18% by the end of 1978. Within this total increase, the banking system's net claims on government was to be limited to 13% by December 1978. This policy was consistent with the requirement to reduce government deficit financing. With the objective of eliminating the mining companies operating losses in 1978, financing by the Bank of Zambia to these companies was allowed to increase by 74% over the 1977 level.

The arrangement also envisaged a reduction of external payment arrears by SDR 397 million at the end of 1978. The contracting and guaranteeing of new external borrowing by government with an original maturity of more than one and up to fifteen years was limited to SDR 280 million in 1978. Of this not more than SDR 50 million was to be contracted or guaranteed with an original maturity of more than one and up to five years. However, loans contracted to refinance external payments arrears were excluded from these ceilings.

The performance of the programme. The programme was partially successful in the following sense:

(a) The financial viability of the mining sector improved considerably. Appendix II shows that the increase in the price of copper per tonne in 1979 and 1980 could have contributed to the improvement of the mining sector's financial viability.

(b) Credit expansion was brought down considerably through limiting government resources to the banking system. This slowed down the inflation rate and improved the balance of payment position from a deficit in 1978 to a surplus in 1979.

Despite these successes, there was inadequate progress in a number of key areas. Over the period of the programme GDP declined in real terms, as a result of a reduction in copper production from 654,000 tonnes in 1978 to 584,000 tonnes in 1979, a drop of about 11%. There was a slight recovery in 1980 but not to the production levels of 1978.

In addition to the fall in the mining output, there was also a fall in the agricultural output due to bad weather conditions in 1978 and 1979. This forced the government to import a substantial amount of food, particularly maize. The strain on the foreign exchange available left little money available for input requirements into other sectors of the economy. This led to underutilisation of productive capacity. Even the budgetary position which had improved in 1978, deteriorated especially in 1980 due to increases in expenditures related to subsidies for maize and servicing of debts.

Thus by the end of the programme in April, 1980, the country's financial conditions deteriorated sharply as the foreign exchange crisis intensified. Some of the reasons for this have been discussed and others include the reduction in the capacity of the transport system to move the country's copper to the sea and problems at ports. Subsidies remained high especially as food had to be imported. Economic pricing for parastatals was not consistently followed resulting in losses. Incentives to the agricultural sector was not rigorously pursued.

By the end of 1980, therefore, real GDP had declined, the government budget deficit had widened and the balance of payment position had weakened due to the 1979 oil price increases, large imports of food and increasing markups on other imports on account of the existence of external payment arrears. In addition, the country's gross international reserves were reduced to the equivalent of only three week's imports.

Faced with these difficult economic conditions the government was convinced that concerted efforts were to be directed towards increasing the level of and diversifying the structure of domestic production, while seeking domestic financial equilibrium and a sustainable external position. It was equally evident that for successful adjustments in the economy, substantial external resources in the form of capital inflows and balance of payment support would be required. Accordingly, the government requested an extended arrangement for a period of three years (1981-83), of an amount equivalent to SDR 800 million which was intended to support a medium-term structural adjustment programme.

The extended programme 1981-83

The extended programme was approved by the Fund on the 8th May, 1981, with the following objectives:

(a) to shift resources to productive investments through restraining both private and public consumption;

(b) within the productive sector of the economy to pay special attention to agriculture, rehabilitation of past investments and making new investments in quick-yielding projects;

(c) to maintain copper production at 600,000 tonnes level for the 1981/83 programme. This figure was arrived at after recognising that output in mining could not be increased significantly in the medium term. The reasons for this were the falling ore grades and productivity, increasing production costs, insufficient capital replacement and continued loss of skilled manpower who were mostly expatriates.

The sectors of the economy identified for productive investments were agriculture, mining and manufacturing. With regard to agriculture, focus was on rehabilitation and expansion of infra-structure, particularly transportation and storage to facilitate easier access to markets. Further, it was also considered that extension services needed to be improved and a rational price policy was to be pursued. Rationality here referred to a comparison between domestic agricultural producer prices and the international or world prices. The programme emphasized mainly on maize production and said little about other areas such as forestry, wildlife and fisheries.

The mining sector was to intensify efforts to reduce costs including stimulating the employment of more technical staff and economising on petroleum. Concerning petroleum, as much emphasis as possible was to be given to the use of electricity.

The manufacturing sector was to be more independent financially and should be able to contribute to the budget. In this respect, the policy of economic pricing was to be vigorously pursued in order to reduce price distortions. Measures were, therefore, to be taken so that the efficiency of individual companies was improved. Policies were to be adopted which encouraged the production of goods based on local raw materials both for the domestic market and for export. To this effect, the existing investment code was to be revised such that adequate incentives were provided to local and foreign investors. Increased investment expenditures were to be undertaken to rehabilitate the manufacturing sector as well as assist in the establishment of viable new projects.

The focus of the policies for the 1981-83 programme. The policies were basically demand management centering around the use of fiscal and monetary policy instruments. In the area of fiscal policy, efforts were to be directed towards mobilisation of both domestic and foreign resources, improving the administrative capacity of the public sector, strengthening overall budget management through the reduction of consumer subsidies and adopting an appropriate wage policy.

In the area of monetary policy, emphasis was on shifting resources to the private sector through limiting domestic bank financing of the budgetary deficit and expanding credit to the private sector. To encourage domestic savings and constrain consumer credit, interest rates were raised for the first time since 1978. The interest rate structure was to be kept under review in the light of changing circumstances during the programme period, with a view to pursuing a more active policy in this area.

Under fiscal policy, resource mobilisation was to be achieved through new tax measures including the rise in sales tax, higher excise duties and increase in company income tax. However, government expenditures were to be reduced in order to reduce overall deficit. In line with the anticipated reduction of subsidies, retail prices of several commodities were to increase, e.g. maize meal, flour, bread, sugar, stockfeed and milk.

With regard to the external sector of the economy, two policies were paramount: (a) the exchange rate policy was to be reviewed periodically and modified as appropriate in the light of changing circumstances, primarily to maintain the competitiveness of the export sector; (b) the government undertook to effect an orderly and substantial reduction of external payment arrears during the programme period.

As in the previous programme, quarterly quantitative performance criteria were set on total domestic credit, government borrowing from the banking system, Bank of Zambia lending to the mining company external payments arrears and external debt contracted and guaranteed by the government.

Problems of implementation. The implementation of the above policies became difficult already in 1981 as exogeneous factors deteriorated. The prices of both copper and cobalt declined in 1981 from the 1980 level. The price of copper was K1,719 per tonne in 1980. It declined to K1,514 per tonne in 1981 and further to K1,374 per tonne in 1982. In addition copper output declined from 609,000 tonnes in 1980 to 560,000 tonnes in 1981. (refer Appendix II)

The decline of both price and output of copper resulted in severe pressures on the balance of payments and mounting losses for the mining companies. Copper accounted for 94% of export earnings in 1980 and 1981. Under these circumstances not all the performance criteria could be met.

Already in 1981, there was a rapid expansion on the budget deficit and associated bank financing. Thus, total domestic credit which had been limited to K1,999 million, exceeded the ceiling by K14.7 million already in 1981. At the same time net claims on the government of the banking system amounted to K1,478.2 million which was K23.8 million above the ceiling. Further, the ceiling on Bank of Zambia credit to the mining companies of K61.4 million was also exceeded by K4 million.

There was also inability to reduce external payment arrears to the programme target. External payment arrears which had to be reduced by a minimum of SDR 21 million from SDR 500 million, in reality went up by SDR 29 million at the end of the period.

During 1982, it became clear that the objectives of the extended arrangement could no longer be achieved during the programme period. Consequently, the arrangement was cancelled on 3rd July, 1982. Zambia had then managed to make purchases of the equivalent to SDR 300 million out of the total SDR 800 million agreed upon at the beginning of the programme.

Due.to the continuing decline in copper and cobalt prices coupled with increasing difficulties to restrain government expenditures, Zambia's economic and financial situation deteriorated further in 1982. The real GDP stagnated due to lower export prices and the acute shortage of foreign exchange. This situation was compounded by the declining agricultural output resulting from poor rains during that planting season. The result was the widening of the balance of payments as the low price and output of copper fetched low receipts and yet a high import of agricultural shortfall was added to the usual import bill.

The bulk of the deficit was financed by an increase in payment arrears of SDR 169 million. Further, the financing of the deficit included purchases of SDR 359.3 million from the Fund, comprising of SDR 300 million available in the first year of the extended arrangement and a drawing of SDR 59.3 million on the Fund's Compensatory Financing Facility.

The government's budgetary performance was also worse in 1982 than envisaged. This was a result of considerable increase in expenditure while the income side remained stagnate, e.g. net parastatal borrowing from government rose much higher than expected. The decline in mineral prices also implied that mining companies incurred substantial operating losses, which were financed through the domestic banking system. This contributed substantially to domestic credit creation.

As a result, the government was faced with the task of halting the deterioration in internal and external imbalances in 1982. The balance of payment gap outlook was of the magnitude that could not be financed from the available domestic resources. It clearly needed external resources to correct the imbalances. Accordingly, Zambia requested for a new standby arrangement in support of a new financial recovery programme. The amount requested was equivalent to SDR 211.5 million over the period April 1983 to March 1984.

The financial recovery programme, 1983-84

The principal objective of the financial recovery programme was to restore the financial stability of the economy. This was with special references to public finances and the liquidity position of the mining sector. The programme was also to assist in consolidating and restructuring payment schedules for external debt and external payment arrears. It was further to assist in halting the deterioration in the balance of payments and in containing the overall deficit to match the available external resources.

The policies for the financial recovery programme. To achieve these objectives, the government adopted a comprehensive set of policies which were aimed primarily at the reduction of domestic demand, particularly, consumption expenditures. The government was guided by the need to provide adequate economic incentives for production in agriculture and of locally manufactured exports. There was also a need to enhance the economy's international competitiveness and to implement measures aimed at raising productivity in the mining sector.

In line with these policy guidelines, in January 1983, the Kwacha was devalued by 20% in terms of the SDR. This was supposed to stimulate the diversification of the economy towards productive exports and discourage imports. Later in July 1983, the authorities adopted a flexible exchange rate policy by delinking the Kwacha from the SDR and pegging it to its own basket of currencies chosen on the basis of their importance to the country's trade.

To support this new measure, some institutional adjustments were made such as streamlining the system of foreign exchange allocation and issuing of import licences on the basis of a monthly foreign exchange budget. Reflecting the severe external debt burden, the government decided for the first time to consolidate and reschedule foreign debt service payments falling in 1983.

The diversification of the economy was to be encouraged through the increase in agricultural producer prices, cuts in operation costs and improvements in the managerial efficiency of the parastatal organisations. The fiscal policies pursued during the year included a 10% reduction in expenditures. On the revenue side, the target was to increase revenue by 25%. In addition, a freeze on wages was intensified and the total number of government employees were not to increase during that year. To reduce pressure on the budget, a policy of subsidy reduction was maintained.

Following the general decontrol of prices effected in December 1982 and the increased flexibility allowed to industry to set prices at economic levels, there was a general price increase for a wide range of commodities including maize meal and fertilisers. Domestic price levels were affected further by the pass-through to consumers of higher import costs arising from the depreciation of the Kwacha.

In the monetary field and in line with a restrictive monetary policy stance, interest rates were increased in January 1983, largely as a deterrent on domestic credit expansion and in order to encourage savings. Further, the programme included quantitative performance criteria on domestic assets, claims on government, credit to the mines, external payments arrears and non-concessional external borrowing. In addition, the incurrence of arrears was not allowed under the debt rescheduling arrangements.

Programme implementation. Most of the measures under the programme were successfully implemented and the country's economic situation showed improvement in 1983. The overall budget deficit was reduced from 18.9% of the GDP in 1982 to 6.9% in 1983. The growth of net domestic assets, net credit to the government and broad money was constrained during the programme period. In the course of this standby arrangement, all credit ceilings were fully observed.

However, Zambia's external payments position remained precarious largely because of low copper prices, quantity produced and exported. By the end of December 1983, Zambia was unable to meet the performance criteria on external payments arrears and on arrears under debt rescheduling agreements. Consequently, the country was able to make only three of the four purchases under the programme amounting to SDR 166.5 million leaving undrawn a balance of SDR 45 million.

As there were still problems on the balance of payments account, Zambia requested another standby arrangement from the Fund of the amount of SDR 225 million for a twenty-one month period beginning from July, 1984.

The 1984 standby arrangement

The economic programme supported by this arrangement had as its main objective the consolidation of progress begun in 1983 towards reducing domestic and external imbalances. The programme also sought to promote the diversification of economic activity away from the mining sector into new areas, particularly agriculture.

Under the programme, the Zambian authorities undertook several measures aimed at further strengthening public sector finances and restraining domestic consumption. Thus the government budget deficit in 1984 was to be limited to 4.5% of the GDP, reflecting a reduction from 6.9% of 1983.

This improvement in the budget deficit was to be achieved through a combination of measures to raise revenue and reduce expenditures. The revenue and grants were estimated to increase by 15.5% whereas expenditures growth was to be limited to 7%. Revenue targets were to be achieved through increased rates for excise and import duties, a shift in the basis for taxing imports from f.o.b. to c.i.f. and higher non-tax revenues from licencing fees and dividends. The reduction in the rate of growth of expenditures was to be supplemented by sharply reduced levels of real outlays for personal emoluments and subsidies.

With respect to the external payment field, the balance of payments projections assumed a decline of about 10% in export receipts due to low copper prices and 11% in nominal imports on account of the shortage of foreign exchange. In view of the difficult external payments situation, the programme also assumed debt relief from the Paris Club and the non-Paris Club creditors.

External payments arrears were to be reduced and the programme provided for the continuation of a flexible exchange rate policy that would ensure no appreciation of the Kwacha maintains the financial viability of the mining company in the face of declining export prices and continues to provide adequate incentives for export diversification. To this end incentives for non-traditional exports were further strengthened through the introduction of a 50% foreign exchange retention scheme.

With regard to the supplyside, measures in the programme included increases in interest rates, agricultural producer prices, greater price liberalisation in the economy as a whole, reduction of costs of production in parastatals and improvement of managerial efficiency. These measures, together with continued wage restraint throughout the economy, were expected to improve the financial position and operating efficiency of the non-government sector. Regardless of these measures, the programme did not envisage any increase in real GDP due to the limited possibilities for increasing mineral exports and capacity utilisation in the domestic manufacturing sector. As a means of monitoring progress in the developments of the economy, the usual quarterly quantitative performance criteria were also included in the programme.

Some problems of implementation. Most of the measures incorporated in the financial programme were implemented, although delays occurred in some areas. In spite of this, there was again a deterioration in the external prospects not only on account of a further decline in the world copper prices, but also because of higher than estimated amounts due for debt service payments after relief. The intensification of the shortage of foreign exchange also adversely affected economic performance and prospects of growth.

Mainly on account of the shortage of foreign exchange, the programme's July and September 1984 performance criteria for a reduction of external payments arrears were not met. In fact the arrears rose by SDR 14 million compared to the programme target of reducing them by SDR 6 million. However, all credit ceilings, including the government recourse to the banking system were observed. This was achieved through efforts to increase the effectiveness in tax collection, particularly on import duties and to restrain government expenditure.

In spite of these efforts, the overall government budget deficit was higher than originally anticipated, largely due to shortfalls in tax revenues and high outlays arising from the depreciation of the Kwacha. Notwithstanding the non-observance of the performance criteria on external payments arrears, Zambia managed to purchase an equivalent of SDR 80 million for the period up to September after the Fund applied a waiver on the level of arrears at the end of this period. To-date no further drawings have been made due to the delay in completing a review of the developments in 1984 and the protracted discussions on the 1985 programme under the current standby arrangement.

FOREIGN EXCHANGE AUCTIONING

Up until 1985, the foreign exchange shortage remained acute. At the end of 1985, the government made radical changes in economic policies, aimed at laying a foundation for the resumption of growth in the economy. The major policy measure of this reform programme was the establishment, in October 1985, of a weekly foreign exchange auction to allow market forces to determine the exchange rate of the Kwacha.

The new policy for determining the exchange rate, was introduced on the principle that the market determination of the exchange rate was the most efficient way to allocate the country's limited foreign resources. To ensure effectiveness of this drastic measure, additional supportive policy adjustments were made. These included substantial liberalisation of trade and external payments. It also included a policy to decontrol interest rates and other monetary as well as fiscal policies.

This system of allocating foreign exchange has now been operational for more than one year. At the time of writing this paper, a total of 62 auctions had already been conducted, involving large sums of foreign exchange. The major impact of the auctioning on the country's economic performance during this period is reviewed below.

The operations of the auctioning system

At its inception, the system did not cover all foreign exchange transactions. Payments for TAZARA, oil, TAZAMA, IATA charges, the requirements of government and ZCCM were excluded from the auction. Foreign exchange requirements for these purposes were allocated manually by the Bank of Zambia at the ruling rate. The amount of weekly auctionable funds was fixed at US$ 5 million which was considered sufficient to cover the transactions going through the auction.

On the 22 February 1986, the auction was extended to include all payments for oil, TAZAMA, IATA charges and TAZARA. Consequent upon this decision to increase the coverage of transactions going through the system, the amount of weekly auctionable funds was raised from US$ 5 million to US$ 9 million.

Analysis of the data in Appendix IV covering 52 auctions, reveals that a total of 18,156 bids for foreign exchange were received by the Bank of Zambia. During the first 26 auctions, 6,464 bids or 36% were received and the second 26 auctions 11,692 bids or 64% were received. The number of successful bids over the 52 auctions were 10,378 of which 4,347 or 42% were in the first 26 auctions and 6,031 or 58% were in respect of the second 26 auctions.

It can also be observed from Appendix IV that the amount of Kwacha offered increased from K1.3 billion (33%) in the first 26 auctions to 2.6 billion (67%) in the second 26 auctions giving a total of K3.9 billion in 52 auctions. The amount of dollar demanded for the 52 auctions was US$ 574 million, with US$ 202 demanded in the first 26 auctions and US$ 372 million in the second 26 auctions. On the other hand, US$ 322 million was disbursed to successful bidders with US$ 185 million or 57% being disbursed in the second 26 auctions.

Between auction 1 of October 11 1985 and auction 52 of October 4, 1986, the exchange rate of the Kwacha fluctuated between K5.01/US$ 1 and K8.07/US$ 1. From the base of K 2.2/US$ 1 ruling on October 3 1985 the Kwacha depreciated by 128% at the exchange rate of K5.01 per one US dollar and 267% at the exchange rate of K8.01 per one US dollar. Although the exchange rate seemed to have settled within reasonable bounds up to auction 52, sharp depreciation of the currency occurred thereafter down to K15.25/US$ 1 in auction 60. This represented a depreciation of about 593% against the US dollar.

From February 1986, to mid-July 1986, the modus operandi of the auction system remained unchanged. However, it became obvious that the value of the Kwacha was continuously declining and this tended to discourage investments in the economy. In the light of this, the government introduced some modifications in July 1986. These modifications were aimed at stabilising the rate through orderly behaviour in the foreign exchange market, ensuring proper utilisation of auctionable funds and improving revenue collection for the government budget. Thus from auction 41 of July 19, a number of new documentation requirements were introduced to accompany future bids. Notable among these documentations were evidence of payment of customs duty for goods which had arrived in the country and at least evidence of shipment and SGS clearance for those goods on high seas and income tax clearance certificate. In addition, all bidders with overdue excise duty and sales tax obligations were required to settle such arrears before their bids could be accepted in the auction. Finally, bank overdraft used for bidding at the auction was limited to 20% of the Kwacha offered for the purchase of foreign exchange.

In spite of these measures, the exchange rate of the Kwacha showed no improvement and the currency weakened further in subsequent auctions. It was against this unfavourable development that two weeks later on August 2, 1986, the government introduced a "Dutch Auction" system for determining the exchange rate of the Kwacha. It was hoped that the new system would remove the depreciation bias of the previous marginal bid system.

Although there was an initial improvement in the exchange rate after the introduction of the "Dutch Auction", this was not sustained as the fundamental underlying factors remained. This was compounded further when in September the amount of foreign exchange auctionable was reduced to US$ 5.5 million per week. These funds were to be distributed as follows: US$ 1 million for overdue letters of credit, US$ 0.5 million for IATA charges, US$ 1 million for ZAMOIL, US$ 0.5 million for commercial banks' working balances and US$ 2.5 million for general imports. Clearly, this meant that the exchange rate would decline further and this was reinforced by the backlog of undisbursed commitments on past auctions which had built up due to continued severe foreign exchange difficulties.

Distribution of auction resources

Appendix VI shows the distribution of foreign exchange auctioned by end use. For the purposes of this discussion the various imports have been divided into: consumer goods, intermediate goods, machinery and equipment, services, miscellaneous goods and allocation to commercial banks.

A study of statistical information provided by the Appendix under discussion shows that out of a grand total of US$ 139.9 million, US$ 9.8 million was used for consumer goods. This represents 7% of the total resources with respect to the first 26 auctions. The breakdown of this US$ 9.8 million shows that US$ 2.7 million or 27% was used to import paper and paper products. US$ 1.5 million was used for importing medicine and pharmaceutical products and US$ 1.6 million or 16% was spent on food products. The balance of outlays on consumer goods was used for the importation of miscellaneous goods such as textile products, soap and detergents, beverages and tobacco etc. During weeks 27-52, contrary to weeks 1-26, crude oils and petroleum products claimed the largest share of disbursements for the intermediate goods with US$ 31.7 million. This sharp increase in resources for oil was due to the full participation of ZAMOIL in the auctions compared to the first 26 auctions when resources were allocated to it administratively. A similar pattern is observed with respect to IATA charges under services where the disbursements are US$ 6.8 million in the second 26 auctions as compared to zero in the first 26 auctions.

Allocation for industrial spares, chemical materials, transport spares and agricultural spares during weeks 27-52, amounted to US$ 11.8 million (11%), US$ 10.4 million (10%), US$ 7.6 million (7%) and US$ 3.9 million (4%) respectively. The importation of iron and steel, textiles and building materials took up a reasonable amount of the balance of foreign exchange within the category of intermediate goods.

The amount spent on the two categories of intermediate goods and machinery and equipment totaled US$ 212.8 million or 62%. The amount disbursed for consumer goods amounted only to US$ 20.6 million or 6% of the total. These figures refer to the second 26 auctions. This shows that most of the money has gone into improving the utilisation of capacity in agriculture and manufacturing.

Sectoral foreign exchange allocation

Appendix VII gives a sectoral breakdown of the foreign exchange allocated during the first year. From the tables it can be observed that 18,156 bids were received. They were broken down into 1,667 or 9% for agriculture, 8,842 or 49% for the private manufacturing sector, 3,566 or 20% for the parastatal sector and 4,081 or 22% for the other sectors.

The total amount of Kwacha offered by all sectors of the economy during the year was K3.9 billion for a sum of US$ 574 million. Of this amount, the agricultural sector offered K279 million to cover a total sectoral demand of US$ 45 million. The private manufacturing sector put up K1.8 billion for US$ 250 million and the parastatals put up K1.6 billion for US$ 247 million. The Kwacha offered by other sectors amounted to K228 million for a total demand of US$ 32 million. It is also observed from the Appendix that the private manufacturing and the parastatal sectors are the major beneficiaries of the total foreign exchange disbursements. Foreign exchange allocations to the manufacturing sector amounted to US$ 134 million and this is equivalent to a weekly average of US$ 2.6 million. The parastatal sector benefited most with US$ 2.8 million.

The agricultural sector was allocated a total of US$ 19.3 million which on the average is a meagre US$ 0.4 million per week. For the rest of the sectors foreign exchange disbursed was US$ 21.7 million.

Some comments. The response by the agricultural sector to the auctioning system was below expectations. This is due to low liquidity in the sector partly arising from previous unfavourable producer prices. Apart from the commercial farmers, the sector is dominated by peasant farmers whose ability to take part in the auction is greatly constrained by lack of funds. Thus, despite a relatively large sum of money being reserved for this sector only US$ 0.4 million was actually disbursed. In most cases only replacement spares were bought to support rehabilitation programmes as prohibitive costs hindered the importation of large plant and machinery. With ruling high levels of exchange rates and interest rates, the agricultural sector will most likely not show increased benefits from the auction during the current year.

With respect to the manufacturing sector, the enthusiasm to bid has remained high due to the great need to replace worn-out machinery and procure the necessary raw materials to improve capacity utilisation. With the implementation of decontrol of prices, the manufacturing sector was able to bid for foreign exchange by passing costs to the consumer. The desire to obtain foreign exchange in order to increase capacity utilisation was so great that companies are willing to buy foreign exchange even at very high Kwacha cost.

Analysis of Appendix VIII shows that after a peak of 760 bids after auction 43, the number of bids began to decline in subsequent auctions. By the 60th auction, total bids received had gone down substantially to 257. The same trend is observed in the case of total dollars demanded. From US$ 24 million demanded in auction 43, total amount of dollars demanded fell to US$ 7.2 million in auction 60. In line with the reduced number of bids received, the number of successful bids has also gone down from an all time high of 634 bids in auction 43. From US$ 20.76 million allocated in auction 43, total dollars disbursed fell to US$ 5.6 million in auction 60. With respect to the exchange rate, it can be seen that with the reduction in the amount of dollars allocated, the depreciation of the Kwacha increased until auction 60 when it hit a rock bottom of K15.25/US$ 1.

Some summary notes on the auctioning system. The system of auctioning foreign exchange is now more than one year old. During the first year of its existence, there has been general satisfaction with the new exchange arrangement especially as a mechanism for determining the exchange rate of Kwacha and allocating the country's foreign exchange. Although under this system the Kwacha has depreciated very sharply and hence the current concern about this arrangement, the allocation of foreign exchange has improved substantially compared to the period of the previous regime of administrative allocation of resources. The auction system has, therefore, had both negative and positive effects on the economy. Some aspects of the effects are discussed as follows:

(a) *The level of economic activity* : Although figures are not yet available, capacity utilisation of most companies seem to have increased compared to the pre-auction period due to the improvement in the allocation of foreign exchange. Many companies are now not only able to procure the necessary raw materials and other inputs but they are able to plan their future operations better than before, thus increasing their efficiency.

Before the introduction of the auction system, there were several incidences of temporary closures by a number of companies as they ran out of raw materials. Some of them were threatened with permanent closures as there was no assurance that foreign exchange would be available. Faced with such a situation, employment opportunities dwindled as many companies declared massive labour redundancies. This situation has improved considerably after the introduction of the auctioning system.

Another positive effect of the auction on the manufacturing sector has been the improvement in the supply situation in the economy. Although a good portion of the available commodities has been imported, domestically produced goods have also shown an increase during this period. Notwithstanding the above, the auction system has caused considerable problems for small-scale industries and companies. Most of these companies are financially weak and have, therefore, limited capability to bid for foreign exchange. Faced with this situation, a number of them have closed down. The problem has become acute recently with a high exchange rate resulting from the auctioning.

(b) *Domestic price levels (inflation)*: Although the business community including industry has, on the whole, found the auctioning of foreign exchange beneficial, the general public has expressed dissatisfaction. The cost of living has gone up drastically since the introduction of the system in October 1985. Soon after the introduction of the system, prices of most commodities went up sharply to compensate for the high cost of obtaining foreign exchange. Whereas some of the increases in commodity prices were justified, there are other price increases which had no bearing on the upward shift in the exchange rate of the Kwacha.

Reflecting these high price levels, the annual rate of inflation jumped from 35% in September 1985 to 46% the following month. The latest data reveal that the rate of inflation went up further to 59% by the end of July, 1986. It is now anticipated that there may be stabilisation of prices.

The concern of the public with regard to price increases emanates from the fact that salaries and wages have not moved up correspondingly over this period. These divergent movements in domestic price and wage levels have led to a substantial loss in the purchasing power of the Kwacha. The reduction of subsidies on maize meal has also contributed greatly to the levels of prices. An increase of wages seems to be the only way to cushion the public from further misery, especially since these have been static for a long time.

(c) *Export promotion*: Presently there is no statistical information available as regards to the performance of the non-traditional exports. The depreciation of the Kwacha was supposed to increase the exports of other commodities besides copper. It is believed that with a realistic exchange rate, incentives would be provided for exporters and thus diversify the export base. The exchange rate policy should be supplemented by other policies in order that these results can be obtained.

(d) *Exchange rate instability*: The instability in the exchange rate of the Kwacha has tended to make financial budgeting and economic planning extremely difficult. This is particularly true of industry which ultimately affects the level of productivity in the economy. It is for this reason that there is great need not only to stabilise the exchange rate but also to arrest the rising trend observed in the past few months. This can only be done if the public confidence in the system is restored and consolidated.

In the recent past, the backlog of undisbursed commitments in respect of successful bids from previous auctions and the fact that subsequent auctions have been conducted on a commitment rather than on a cash basis have contributed greatly to the current high and unsatisfactory exchange rate levels. The backlog of undisbursed commitments has meant that previous successful bids are being funded at lower rates than ruling rates, thus injecting additional liquidity into the economy which has been reflected in high exchange rates.

Both these developments have been the result of the inadequate and irregular supply of foreign exchange to the auction.

CONCLUSIONS

This paper has discussed in a historical perspective the participation of the Fund in the economy of Zambia. It has been shown that throughout this participation the Fund has tended to recommend that Zambia pursues demand management policies. However, these policies do not seem to have helped the recovery of the economy because the problems have been deeply rooted in the structure of the economy. What was necessary in order to solve them was a complete restructuring of the economy.

The restructuring exercise has to change completely the engine of growth in the economy. Instead of copper production leading growth, a new engine is needed to lead growth consisting of agriculture and the manufacturing sector. For such a structure to emerge, it is necessary that Zambia obtains long-term assistance. The short-term assistance which Zambia has been obtaining from the Fund was not sufficient to allow for this type of structural adjustment.

We have also discussed the newly introduced auctioning system. Though positive developments were observed, for a structural change to take place long-term assistance is needed. It is only hoped that the country will receive such long-term commitment for it to develop a new engine of growth.

10. Impact of the IMF/World Bank Philosophy, the Case of Tanzania*

Samuel M. Wangwe

INTRODUCTION

This paper intends to draw some lessons from the protracted negotiations between the government of Tanzania on the one hand and the IMF and the World Bank on the other. The paper starts with a brief historical background to the crisis which became explicit in 1979. The following section summarises the background and nature of the crisis with a view to placing in context the negotiations and the policy measures which have been taken. The third section briefly indicates the types of policy measures which the government of Tanzania has been taking while negotiations were in progress. In the following section the negotiations are discussed with a view to extracting therefrom some salient features. The last section concludes with what in my opinion seem to be the major lessons that can be drawn from the way the negotiations were conducted and their outcome.

BACKGROUND TO THE CRISIS IN THE ECONOMY

Although the 1970's were not characterized by an open crisis there were signs of the crisis already beginning to come into the open. During the 1970's the growth of GDP decelerated with the growth of the directly productive sectors, especially agriculture, exhibiting the deceleration of growth most conspicuously. (Economic Surveys 1975, 1980) Within the agricultural sector the volume of exports declined quite considerably. (Economic Surveys 1975, 1980) This decline was accompanied by the deterioration of terms of trade (except in 1976-77) resulting in decline in the export revenue.

The decline in the export revenue took place in the context of many other events/factors which were operative in the same period. The performance of

* I am grateful for comments made to the presentation I made by the participants of the conference on the IMF/World Bank held in Uppsala and by Mr. Charles Nyirabu, Governor, Bank of Tanzania and Dr. William Lyakurwa and Professor Benno Ndulu of the University of Dar es Salaam. The responsibility for the views expressed in this chapter lies on me.

the agricultural sector was depressed by drought in some parts of the country, low producer prices which were also declining in real terms, inadequate research and extension services, inadequate marketing arrangements, some drastic institutional changes which negatively affected agriculture.in parts of the country and inadequate allocation of resources to the agricultural sector particularly to the small-holder farms.

While the export revenues were adversely affected, the oil shocks of 1973/74 and 1979/80, the war with Idi Amin of Uganda in 1978/79, liberalization of imports (mainly luxury consumer goods) in 1978, and considerably import intensive investments (especially in the industrial sector) during the 1970's contributed to the drastic deterioration of the balance of payments.

The concentration of resources on new investments at a time when the export sector was performing sluggishly was sustained for some time by foreign financing and the hope that the crisis was short-lived. Thus the incremental capital output ratio in the economy increased considerably following the failure to utilize adequately the existing and the newly created capacities mainly for lack of foreign exchange (Wangwe 1977 and 1983), and delays in project completion in the face of diminishing resources and cost overruns of projects under implementation became more common.

Towards the end of the 1970's and during the early eighties the deteriorating import capacity was worsened by the receding capital inflow from multilateral and bilateral donors.

The poor performance of the productive sector adversely affected the growth of government revenue while the fast growth of public administration and other public expenditures put the budget deficit on the high and worsening side. This precipitated a high rate of growth of money supply and the rate of inflation increased from 10-12% in the first half of the decade to about 25-30% by the end of the 1970's and early 80's.

The main cause of the crisis is therefore on the supply side whereby the main foreign exchange earner (agriculture) did not cope with the fast expansion of capacities and new investments, especially in the industrial sector. For lack of foreign exchange the industrial sector could not deliver additional goods in spite of the large investments. (Wangwe 1983) The solution to the crisis would therefore be expected to centre on how to get foreign exchange to facilitate the revival of industry, physical infrastructure and agriculture and how to improve the incentive structure and resource allocation to agriculture and what actions could be taken to arrest the fast growth of public administration, at least until output of the productive sector recovers sufficiently. At this point it may be noted that the rehabilitation and better utilization of existing capacities in industry, agriculture and infrastructure would not only play an important role in alleviating shortages and lowering the rate of inflation but would make incentive goods available to the rural areas, in particular where agricultural activities are taking place.

ATTEMPTS MADE BY THE GOVERNMENT TO SOLVE THE CRISIS, 1980-1986

In 1980 the government reached an agreement for a standby credit with the IMF but after one quarterly drawing the agreement was suspended because of failure to observe the credit ceiling largely due to overexpenditure in the recurrent budget. While the government was seeking renegotiation with the IMF, attempts were being made at the same time to resolve the crisis. First through the National Economic Survival Programme (1981-82), then through the structural Adjustment Programme (1982-85) and latest through the Economic Recovery Programme (1986-89).

National Economic Survival Programmes 1981-82

The government formulated NESP in 1981 aimed at reviving exports and increasing industrial output from existing capacities. The programme was however, formulated in a hurry, targets were not realistic and it did not articulate ways of mobilizing the people and resources in order to achieve the targets. There was little discussion of NESP even among policy makers themselves. At the end of the period most targets of NESP were not achieved. If anything most variables (e.g. exports, industrial output) moved in the opposite direction to the one projected.

Structural Adjustment Programme 1982-85

The SAP was formulated by a team of foreign and local experts and it addressed the issues of restructuring economic activity and rehabilitation of the economy. The team was accepted by the government of Tanzania and the World Bank. The results of the study, it was hoped, would facilitate the negotiations between the government and the IMF/World Bank. As a result of SAP the following major actions were taken:

(i) the agricultural policy was formulated, discussed and adopted in 1983. This resulted in greater attention to agriculture in terms of increased resource allocation (the share of development expenditure allocated to agriculture doubled between 1982/83 and 1983/84), increased producer prices, introduction of cooperatives and marketing boards in place of crop authorities, and prompt payment to farmers at the time of crop procurement.

(ii) the fast growing public administration and expenditure were addressed in comprehensive studies carried out by Presidential Commissions, one on the parastatal sector and another on government expenditure. The results of these studies led to the rationalization of several parastatals and disbanding of others and to restructuring of government ministries and cutting various expenditures by government.

(iii) in response to the burden felt in terms of shortages, difficulties to administer price control of too many items, increasing overvaluation of the shilling and budget deficits, the government undertook the following: (a) partial liberalization of imports whereby importers who had their own funds could import specified goods relatively easily, (b) removed subsidies from several consumer goods, (c) decontrolled prices of several items, (d) devalued the shilling from 12 to 17 shillings to the US dollar, (e) introduced partial charges for some of the services which had hitherto been offered free, e.g. secondary school fees. The above measures notwithstanding, output in the productive sectors and rehabilitation of eroded directly productive and infrastructural capacities remained largely unrevived for lack of foreign exchange as the anticipated inflow of resources did not materialize.

(iv) *Export Promotion.* Export incentive schemes were designed with a view to increasing exports. The rebate scheme, export retention scheme, export credit guarantee, concessional interest rates for production of exports and presidential export awards were introduced for the purpose of export promotion. The Presidential Commission for export promotion examined further the problems in the export sector and made appropriate recommendations to government in 1985.

While these attempts in policy formulation and policy action were undertaken, negotiations with the IMF were taking place but were not concluded. In the meantime the inflow of resources was falling.

The Economic Recovery Programme 1986-89

This programme was prepared during 1985/86 by the government of Tanzania with the "assistance" of the World Bank. This is the document which was finally used to conclude negotiations with the IMF. The programme essentially aims at (a) increasing output of exports and food crops, (b) rehabilitating physical infrastructure and raising industrial capacity utilization, (c) restoring the external and internal balance by pursuing prudent fiscal, monetary and trade policies.

The key policies which were pronounced in the programme are:

- raising producer prices by 5% per year in real terms or to the extent of 60-70% of the world market price whichever is higher
- pursue an active exchange rate policy action to remove overvaluation of the shilling within 3 years
- to increase the list of items under import liberalization
- further deconfinement of imports and internal trade
- continued budget expenditure controls
- control of money supply
- raising parastatal efficiency
- preference for structural adjustment and non-project and import support type of aid
- debt rescheduling
- improvement of the system of allocation of foreign exchange

Negotiations with the IMF

Having suspended the 1980 agreement the government resumed negotiations with the IMF. At the beginning of the negotiations the government and the IMF were not agreed on the causes of the crisis. While the IMF believed that the internal factors, in particular domestic economic policy mistakes were responsible for the crisis, the government believed that the external factors in particular the collapse of commodity prices and the oil shock, were responsible for the crisis. Both sides (the government and the IMF) held their beliefs very firmly and rigidly for some time in a rather dogmatic way. In my opinion the rigidity of both parties is partly explained by the fact that having been denounced publicly earlier on by the President of Tanzania the IMF seem to have come back this time with a much tougher stand in order to "teach" Tanzania a lesson. It is not my intention to speculate about the kind of professional ethic which governed this stance but it seems to have influenced the negotiations all the same. On the Tanzania side some officials deemed it "progressive and nationalistic" to reject the IMF proposals in toto and to discount in toto the role of domestic policy mistakes in the crisis. As negotiations progressed a convergence started to emerge as the IMF gradually acknowledged the important impact of the external factors on the economy. On the side of the government, partly as a result of internal debates, the importance of domestic policy mistakes was increasingly recognized. It is on the basis of this recognition that policy actions were taken as indicated above. In this senses it appears that the process of negotiation was, among other things, an educative process on both sides. If the agreement had been reached too quickly the internal debates on the economy would probably not have taken place to the extent they did.

The main contentions in the debates were on prices (of foreign exchange, agricultural products and of capital). While the IMF was proposing a once and for all movement to "equilibrium" or "right" prices, the government side was not even accepting the adjustment of prices, not only to the extent proposed but even in principle. However, as a result of internal policy debates the government's position shifted in a more pragmatic way in that the principle that the prices were not right was accepted but the extent and speed of adjustment was debatable. In the absence of an adequate inflow of foreign exchange to rehabilitate the productive and infrastructural activities, drastic price increases (the exchange rate, producer prices, the interest rate) would have been inflationary, inflicting greater harm especially to the low income groups. This is a real and genuine concern especially in the light of the failure on the part of the IMF to guarantee such an inflow of resources.

The most heated debate was on the exchange rate. The principles of arriving at the right exchange rate differed. The IMF has in mind an "equilibrium" exchange rate which would equate supply and demand of foreign exchange but could not objectively determine it in a convincing way. The government on the other hand wanted an exchange rate based on the parastatals budget frame. Such an exchange rate was supposed to clear the losses of the export crop authorities. Each party proceeded to calculate the "appropriate" exchange rate and they came up with different rates, the IMF's rate being much higher. Such a high exchange rate was seen by the IMF as a proper "shock treatment" for the economy while the government expressed concern about the inflationary effects, burden of adjustment on the low income groups and feasibility of such a large devaluation in terms of political stability.

Having failed to reach an agreement, the government proceeded to negotiate with the World Bank in the hope that the World Bank would understand better the longer term structural development problems of the economy and thus appreciate better the supply bottlenecks facing the economy. The government negotiated with the World Bank and reached an agreement on a sectoral programme. The World Bank, however, disappointingly expressed to the government that the agreed upon programme would be implemented only after the government had agreed with the IMF on the issue of the exchange rate.

In December 1985 negotiations were resumed. This time the IMF demanded an even larger devaluation arguing that the economy had deteriorated considerably from the time the last negotiations were held. The agreement was not reached but there was greater convergence of the desired magnitude of devaluation. The government proceeded to make exchange rate adjustment without an agreement with the IMF. This decision was made in order to arrest further overvaluation of the shilling in the current period as the rate of inflation in Tanzania was higher than the rate of inflation in the major trading partners. Thus between April and June 1986 the exchange rate had been progressively adjusted from Tsh 17 to Tsh 30 to the US dollar. In June the government announced a devaluation from Tsh 30 to Tsh 40 to the dollar. Negotiations were resumed and in August 1986 an agreement was reached with the IMF. This degree of devaluation in reality is not as massive as it looks considering that by July 1984 the partial liberalization had made it possible for prices of many imports to be fixed on the basis of an implicit exchange rate which was higher than the official one. Effectively, therefore, at the time of the devaluation of June 1986 the impact on the price level was not substantial largely because many goods were already selling at an exchange rate which was higher than the official rate. In the same way, price decontrol was undertaken when the price control mechanism had become rather ineffective with many goods selling well above the level of the official prices.

LESSONS FROM THE NEGOTIATIONS

The protracted negotiations involved a gradual shift of positions both on the part of the government and on the part of the IMF.

On the part of the IMF a shift in position is evidenced by the observations that:

- an agreement was reached on an exchange rate which is lower than the IMF's "equilibrium" exchange rate.
- an agreement was reached without first having to adjust the interest rates to positive magnitudes in real terms as earlier demanded by the IMF.
- it was agreed that the producer prices would be raised by 5% rather than 10% per year in real terms as had been demanded by the IMF in the earlier period.
- it was recognized that the adjustment of the economy required a longer period than 12 months as had been supposed earlier.

On the part of the government it was in the course of time, largely as a result of internal debates, that it recognized that prices (including those of foreign exchange, agricultural products and capital) were important policy instruments which must be used, among others, in policy making.

In this sense the negotiations provided an opportunity on the part of both parties to re-examine their positions and to try to understand better the economy. The fact that in the subsequent period the government and the IMF/World Bank have agreed on undertaking studies on specific aspects of the economy represents an admission on the part of both parties that there is need to learn and understand better how the economy works. For instance, issues of import tariffs, public expenditure, the parastatal sector and the efficiency of the export crop marketing institutions are some of those identified for further study. This is a positive move in at least two senses. First there is admission that there is need to find out facts about how the economy works on specific aspects. Second, the agreement on carrying out the studies jointly as a positive departure from the earlier practice whereby the IMF/World Bank carried out such studies on their own.

The protracted negotiations have costed the Tanzania economy quite highly but have also provided useful opportunities.

- first, the delay to reach an agreement inhibited resource inflow from multilateral organizations and from most other donors since most of them have confidence in the IMF and the stand the IMF takes on economic policy formulations. This delay made the cost of adjustment exhorbitant and a heavy burden to Tanzanians. Inflicting this much harm to Tanzanians is probably consistent with the arguments of many critics who have indicated how the IMF policies usually cause damage to those who are already disadvantaged.
- second, the long period of disagreement gave Tanzanians the opportunity to debate considerably about the implications of IMF policies and the options available for economic recovery. Tanzanians debated on economic policy matters more than they had ever done before. It is hoped that with or without IMF negotiations in future internal policy debates will continue.
- third, debates about the IMF policies were educative of the dangers of accepting IMF conditions in total. On the other hand, such debates to some extent diverted local efforts from serious debates about the alternative to the IMF policies. For some people it was deemed fashionable and sufficient to criticize the IMF and stop there! This effort could have been better spent on the search for policy options. However, overall this groundwork has been useful for facilitating further debates on policy options.

As we have observed above the IMF/World Bank have endorsed the principle of undertaking further studies jointly in order to enhance the understanding of the economy and give a firmer basis for policy formulation. While these studies have yet to be completed the IMF/World Bank seem to have continued putting demands on the government to do the following:

(i) to progressively move away from the use of quantitative restrictions
(ii) to further liberalize agricultural marketing
(iii) to further liberalize the export retention scheme
(iv) to expand the list of commodities under "own funds" imports
(v) to strive to reach positive real interest rates within 2 years
(iv) to speed up the deconfinement policy
(vii) to progressively decontrol prices rather rapidly
(viii) to proceed with import liberalization by allocating an increasing proportion of foreign exchange to free imports whereby importation would be governed by the market forces.

Under normal circumstances and in the absence of dogmatic solutions one would expect that some of the above aspects should not be pressed on the government until the results of the joint studies referred to above are out. For instance, it does not seem objective to continue liberalization of agricultural marketing before the study on export crop marketing is completed. Furthermore, pronouncements on whether foreign exchange should be allocated according to supply and demand could only be made on the basis of a study on trade policy but that study is not completed as yet. Import liberalization as practised so far has had positive effects (e.g. improving supply of goods, checking shortages and price increases) but it has also had negative effects (e.g. bringing into the country some luxury consumer goods and hardly any badly needed intermediate inputs, leading to the demise of some infant industries, some of which are not necessarily inefficient in the long run). The lesson one would expect from this is how to selectively liberalize imports more in the direction of the observed positive effects and away from the direction of the observed negative effects. The experience so far does not favour "wholesale" import liberalization. The IMF/World Bank's push towards more import liberalization does not make use of this observed experience. It is believed rather subjectively that market solutions are more effective. This negates the well known valid cases of market failure. Such valid cases of market failure suggest that movement from a large disequilibrium towards an equilibrium, especially in an economy riddled with supply bottlenecks, structural constraints and not always fully-developed markets, should cautiously combine market and prudent administrative policy instruments. In the absence of any economic model which can guide us from the large disequilibrium position to equilibrium we have no choice but to combine policy instruments with the benefit of experience, research studies and intuition of how specific economies operate. High speed movement towards equilibrium through market solutions (e.g. achieve the equilibrium exchange rate as soon as possible preferably overnight, liberalize imports in total as soon as possible, replace administrative controls by market forces as soon as possible) will not work. The high appetite for speed not accepting to benefit from the experience with some successful non-market solutions has the danger of "throwing out the baby with the bathwater". Where non-market policy instruments have been overburdened prudent policy adjustment calls for reducing the burden and not necessarily for throwing away all non-market based policy instruments as fast as possible. If the pressure of high speed price adjustment equilibrium continues it appears that the ground for the breakdown of the agreement with the IMF will have been prepared. If the agreement is to bear any "fruits", greater recognition of non-price solutions as a complement to price solutions and the necessity of making gradual structural adjustments carefully learning from experience, has to be central to policy analysis in countries which are in a large disequilibrium position like Tanzania.

One further lesson to be learned from the negotiations is the low capacity of the IMF/World Bank to develop country specific appropriate policies which are consistent with a long term development strategy which is acceptable to specific governments. In any case, in my opinion, the task of formulating strategies for economic recovery or development must be carried out primarily by the local experts and policy makers. The problem is that the level of development of macro-economic analysis is very low in much of Africa. When confronted with the challenge of what policy instruments to use, in what combinations and which direction to develop, the various countries in Africa are often not adequately equipped to address those issues. The challenge here should be for African countries to develop the capacity to carry out macro-economic policy analysis so that they may avoid at least two dangers. First, to avoid the danger of having to accept the IMF/World Bank packages in total irrespective of whether they are consistent with the long term development strategy of specific countries. Second, to avoid the danger of having to spend all efforts rejecting the IMF/World Bank package at the expense of developing an alternative package which is consistent with the long term development strategy of specific countries in Africa.

Lastly, at the heart of debate about the IMF/World Bank policies is the question of what development strategy to pursue. During the 1950's and 1960's debates about what development strategy to adopt were lively but tended to fade away in the 1970's. Towards the end of the decade, however, Africa worked out the Lagos Plan of Action (LPA) which charted out a development strategy for Africa. However, this strategy has remained long term and has not been translated to short-term implementable steps. Thus the package of policy instruments to be employed in the short run in a way which is consistent with the LPA has not been developed in specific country contexts. In the absence of such policy packages the vacuum is being filled by the IMF/World Bank export-oriented, free trade and market based strategies. This policy orientation seems to be upheld by the IMF/World Bank irrespective of the concrete conditions in specific countries. For instance, in the case of Tanzania's industry studies by local researchers and by the World Bank have found that the industrial sector is facing many structural problems. Some of these problems are a reflection of an inadequate local technological capacity, high import dependence, scarcity of intermediate inputs and inadequate physical infrastructure. When it comes to policy prescriptions it is expected that the specific nature of the prevailing problems would be tackled. To the contrary, solutions are sought at the level of the market and liberalization even when these are not appropriate. For instance, the problem of poor choice of technology and project designs calls for policy prescriptions on the development of local technological capabilities and policy towards selective choice of technology. Instead the prescription leans towards liberalization of imports (which cannot necessarily be selective in choice of technology which is manageable in Tanzania) and exchange rate adjustments to discourage capital intensive investments. But the problem is not that of capital intensity. The studies have found that projects were poorly designed and many inappropriate technology choices were dictated by the source of finance (and not by the overvalued exchange rate for example) rather than by the production and technology conditions in Tanzania. In respect of the problem of high import dependence, for instances, the policy challenge is on how to lower the import content of production and how to develop the utilization of local inputs. To the contrary, the suggestions lean towards the need for rapid adjustment of the exchange rate and rapid import liberalization (which tends to operate to the contrary in some industries). A more appropriate policy question is how to strengthen the institutions which are supposed to enhance import saving innovations. The argument here is not that the right prices do not matter but the fact is that they do not necessarily solve the problem on their own. As a corollary to the import dependence problem of the industrial sector there is a serious problem of the absence of linkages to agriculture, education, health, transport and other sectors. The problem of linkages is not addressed by the IMF/World Bank strategy because it is not the type of problem which can be solved through the market and free trade policy instruments alone. In the past, policy making did not pay adequate attention to the relation between industry and other sectors and in particular with agriculture. But this policy weakness is usually not pointed out by the IMF/World Bank. These types of issues should be addressed by appropriate internal debates about the development strategy.

In conclusion, the challenge is on what we can learn from the experience of the past and design adequate solutions to the problems at hand. If industry has been import dependent, i.e. outward looking in terms of its inputs, the challenge is on how to make it less import dependent, i. e. more inward looking in terms of its inputs. If choice of technology and project design have been inadequate and the local technological capacity has not been adequately developed the challenge is not how to make technology imports more liberal and indiscriminate but how to make guidelines towards choice of technology, how to make technology imports more selective and how best to develop the local capacity to manage project designs and technological operations. If productive capacities are grounded for lack of inputs the challenge is on how best to make inputs available not only in the long run but also during the first steps towards the long run. All this suggests that the time is ripe for each country in Africa to rethink its own development strategy in the light of its specific conditions and in the light of charting out the first steps towards the implementation of the LPA and the policy packages which are consistent with it. This may be facilitated considerably by more comprehensive macro-economic policy analysis in Africa. Such macro-economic analysis should be carried out simultaneously with debates on development strategies which are appropriate in specific country situations.

It may also be mentioned at this point that because of the gravity of the crisis short term solutions have tended to overshadow longer term issues and interests. In the policy packages for instance, concern for ecological issues, desertification and policy towards afforestation and reforestation, searching for alternative sources of energy, development of domestic resource use and developing linkages among sectors have tended to be forgotten. Yet these are very central long term issues which should feature in debates about the development strategy and in the design of short term policy packages which are consistent with the long term development strategies.

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11. The Nordic Countries and the IMF/World Bank

Knud Erik Svendsen

INTRODUCTION

The Nordic countries have over the years tried to develop their own policy profile vis-à-vis the LDCs. But there are, in fact, major differences between the various policy areas. With regard to *aid policies* they are considered to be among the frontrunners in terms of quantity and quality of development assistance, but the economic difficulties in many recipient countries have created new problems for aid, to which solutions are being sought in order to uphold the poverty focus of aid (bilateral as well as multilateral).

When it comes to *broader policies* vis-à-vis the LDCs (the New International Economic Order, UNCTAD, etc.), the Nordic countries have also aspired to a special position, but mostly of a declarative nature with few practical effects. At present, the Nordic countries are discussing the creation of "mini-NIEO's", i.e. special relations to selected LDCs covering a number of policy areas. SADCC is an example of this.

In *foreign policy* matters relating to the Third World the Nordic countries have differed among themselves in country support (Cuba, Vietnam, and now Central America), but they seem to be more united with regard to Southern Africa. In the Policy areas covered by *the IMF and the World Bank* the Nordic countries have kept a low profile, both internationally and in their home constituencies. They have given support to the poverty focus of *the World Bank* and continue to do, especially with regard to IDA, and they have without doubt used their influence on other matters, but none the less the profile has remained low despite the many changes in the World Bank, and it is fair to say that the political communities of the Nordic countries have shown little interest in understanding the policy agenda of the Bank - and formulating views on it.

In general, Nordic attitudes to the Bank as one of many international organisations receiving their support have been sympathetic.

The policy interest in *the IMF* has been particularly limited in the Nordic countries, so limited that it is worthwhile to discuss why this is so. But with some time lag the Nordic governments have shown a larger interest in the Fund in the last couple of years, represented by joint statements on international economic policies.

The mood seems to be changing, more questions about the policy line of the last 7 years are being asked and this reflects on the IMF, having played a central role, especially with regard to the side effect of this policy, i.e. the debt crisis.

It seems to be important to discuss the IMF in this context, and it is also more accepted to do so than during the first years of the disinflation policy and its accompanying views on international economics. The pride in the policy or "experiment" has slowly disappeared, despite the very boost it got from the unrestrained demand expansion in the USA in 1984.

THE IMF, THE DEBT CRISIS AND THE NORDIC COUNTRIES

The debt issue is so important because it is a heavy burden on the development of so many LDCs, and because it represents the accumulation of problems and actions, including the attempts to remedy.

In my view the Nordic countries should come out openly with a critique of the adopted debt strategy, implemented by the IMF, for the simple reason that it has failed. Of course, it has succeeded in saving the international financial system from collapse, but it has placed the burden of doing so almost exclusively on the debtors. And it has not eased the burden. In sub-Saharan Africa in particular, there are many instances where debt servicing is simply impossible.

To me this failure is so evident that I have asked myself why the Nordic countries so far have not taken this stand. What has formed their views in recent years? Can we learn from this process?

There are several explanations. The first set is linked to *the nature of the debt analysis*. The crisis has not been viewed as a general one, but as a transitory one, and major problems have been taken case by case. Further the view is held that adjustment in LDCs is needed anyway, not only for restoration of their creditworthiness. IMF has been looked upon as an institution dealing with crisis, hence its focus should not be on development aspects. And further, new hopes have been created on the way, for instance the Baker initiative put forward in 1985. All this has meant that the nature of the general understanding was played down. Not "muddling through" as some have said, but inside a general framework, a paradigm, which was accepted. A different general understanding would have meant different policies and different demands on the IMF.

The other set of explanations is connected with *the Nordic countries' own situation*. Their own paradigm for understanding is in difficulties, i.e. Keynesianism, welfare etc. Policy shifts have indicated that the governments were ready to join the "experiment". The Nordic countries are small states, with limited capacity with regard to international economic policy, and have been too easily impressed by US leadership. There is also a certain aid bewilderment appearing, in particular regarding Sub-Saharan Africa, where the major thrust of Nordic aid has been directed. No sign of co-responsibility for the development in this region has emerged. The Nordic countries have to a great extent been consumers of reports of international organisations, they have not taken their own initiatives to understand the problems of the present aid paradigm. Another explanation is linked to the fact that the IMF/World Bank area has little tradition in the Nordic political community, it is very technical and complicated. In addition, the whole policy area seems to be rather closed due to the governments' lack of openness as well.

However, a change occurred in March 1986 when the Nordic Finance Ministers issued a joint statement on their view on the international economic crisis: "the debt problems need to be addressed in the framework of a coherent, long-term strategy building on and supplementing the traditional case-by-case approach". They welcomed the US initiative and the need to distinguish between middle-income countries and the poorest. But they believe that the governments in industrial countries should do more, take initiatives in economic and trade policies, strengthen the resources on multilateral financial organisations and increase the bilateral assistance to the poorest countries.

There are a number of problems with this statement:

(a) their strategy is explicitly against a general write-off of poor countries' debt which is viewed as an unrealistic option. On the other hand the Nordic Finance Ministers are in favour of debt relief measures in individual cases, even "additional ODA contributions specifically designed as to help the poorest debtor countries reduce their debt burden". In my opinion this position is too soft. The Nordic countries should instead argue for the need for an alternative strategy. There is no reason to support the Baker initiative which can be looked upon as a measure of postponing the solutions to the severe debt problems. An active stand should be taken in support of working out alternative strategies. And furthermore the Nordic countries should press for write-offs of the World Bank and the IMF debts to the poorest countries.

(b) On international policies their comment is that more growth is needed in order to expand the demand in surplus countries. I doubt this analysis in terms of effective demand. There are deep structural problems of supply and demand for capital - there is no option to return to the 1960s. The macro-price of capital is extremely important, and it amounts to more than monetary/fiscal policy.

(c) The Nordic countries are in favour of multilateral funding, and also commercial banks as channels for funds. Their view is that such lending cannot be replaced by other forms of financing. They seem in my view, however, to be much too optimistic about the roles of the banks.

(d) Regarding the poorest countries, the Nordic countries, "do not see reason for changing the present guidelines on Fund conditionality, but ... must now take more into account the importance of resumed growth." They argue for a strengthening of the World Bank in order to make the Bank and the Fund "equal partners". On the contrary, the Nordic countries should question the nature of short term conditionality and make concrete suggestions as to how to improve on these so that the development needs of the poorest countries are met. This would require also a change in the modalities of negotiations between the Bank/Fund and the debtor countries. There seem to be two interlinked problems related to the Nordic positions: 1. The statements are thrust in too general principles which need to be moved to specific programmes; 2. This lack of concrete proposals is partly due to limited capacity in the field of international economics which have made the Nordic countries too dependent upon the IMF and the World Bank.

One example of the above is the Nordic dialogue with Tanzania. The Nordic countries were not ready to take an independent stand, but pressed primarily for an agreement between Tanzania and the Fund. The Nordic countries were somewhat influenced by the Tanzanian stubbornness and there were some adjustments in their bilateral aid. However, there seemed to be a lack of understanding of the basic arguments related to Tanzania's crisis and too little appreciation of their own co-responsibility for the problems of development in the country.

THE WORLD BANK AND THE NORDIC COUNTRIES

The Nordic countries entered the 1980s with a lot of sympathy for the World Bank, in particular for IDA. I do not suggest that this positive interest should be withdrawn, but instead ask how the Nordic countries can increase their influence more. The Nordic countries have not criticised the Bank for leaving the scene to the IMF. However, there now seems to be more weight behind the position that the IMF has tried its hand and it should be willing to yield the scene to the Bank.

From inside the Bank, the Nordic countries could raise the issue of poverty focus. In this respect the Nordic initiative in the Development Committee in September 1986 to request the Bank to prepare a comprehensive special report on "The effects of growth strategy and adjustment lending on the poverty orientation of the Bank group" was a good one. It, of course, raises the question how to process the report when it is ready, and how to ensure a broad debate on it in the Nordic countries.

It has struck me that with regard to our perception of the African situation we still have a long way to go. Even when we pool our resources in the Nordic countries our capacity is limited, and particularly in the macroeconomic sphere. Something has to be done about it. I think the Nordic countries could act on this by preparing, themselves, general papers on the African situation, including an assessment of the World Bank and the Nordic countries in Africa since 1970. We have been so busy to get the African governments to understand the "message" that we have neglected the process of reaching a solid understanding among ourselves. There is lot of work to draw on outside the Nordic countries, but it is highly important to upgrade our own understanding about how to integrate our own and others work into our own aid agencies.

Such an effort may also address specific issues like, e.g,. the market/private sector, the commodity situation etc. and more operative questions like coordination. There are many problems related to this latter issue and many ways of going about it. The Nordic countries have always had a strong interest in the UN system, which is also involved in coordination. We have an interest in assessing all these efforts and thereby providing a sound basis for the widening our own participation.

12. Nordic view on the IMF/World Bank: Discussion

PEKKA KORPINEN*

The infrastructure of knowledge about the IMF and the World Bank in the Nordic countries seems to be limited. In Finland, for instance, neither politicians nor the press had much interest in these issues. Both inside and outside the Nordic countries, discussions related to the IMF/World Bank take place in rather closed circuits, in the sense that the civil servants dealing with this field do not seem to open up for society and politicians. Hence these bureaucrats exercise quite a lot of power, and more so because this field of international cooperation is one given low priority by politicians. There seems to be a lack of interest combined with the problem of access, but also possibly not enough courage among politicians to enter this complicated area. Among the bureaucrats who know the issues, there has been a reluctance to take new initiatives when things seem to be difficult. Rather, the attitude has been that "anyway this is the traditional Nordic position, which is already checked with other Nordic countries."

The running of the business related to the IMF/World Bank is limited to a few persons, who are not eager to see outsiders to intervene. The structure of the bureaucracies in the Nordic countries is such that those who deal with the policies of the World Bank, are placed at a relatively low level in the bureaucracy, on the level of head of division. These persons receive a substantial amount of material from the Bank every week, and there are regular contacts between the Nordic bureaucrats working in this field.

The Nordic countries have a joint Executive Director (ED) both on the Board of the Bank and the Fund. Between the Nordic ED of the Bank or his office in Washington and the responsible ministries in the Nordic countries there is a huge exchange of material. In the ED's office 3 to 4 persons are occupied dealing with these matters. It is mostly an unproductive activity, because on the one hand it is undertaken at a level where there is insufficient knowledge of details about what is going on in the Bank, and on the other hand the civil servants have no mandate nor courage to take any risk of "new thinking". Whenever new, important issues come up, the attitude of this bureaucracy is normally that the issue cannot be considered at this stage, it has not been discussed thoroughly etc. Hence the organisation of the

*Editor's summary of Korpinen's verbal intervention, approved by Korpinen.

bureaucracy supporting World Bank policies in the Nordic countries makes it unable to initiate and push important issues with full political support.

On the IMF side the Nordic bureaucracies are somewhat better organized. IMF policies in the Nordic countries are run by the Central Banks (in other countries it is normally the Treasury which has this responsibility). The civil servants in the Central Banks are better off than their counterparts dealing with World Bank policies, because the participation in policy formulation and implementation extends up to the Governor's level. Since many of these civil servants stay on their jobs for a rather long time, they take an active interest in these issues, and the Nordic Governors meet regularly to discuss IMF policies as well. Regarding the World Bank, on the other hand, the Governors are on the ministerial level and most of these in the Nordic countries are rather isolated from the civil servants who normally run the business. In the Nordic countries, the ministers responsible for World Bank policies, be it the Foreign Minister or the Minister of Finance, go to Washington once a year and read the "Nordic speech" which has been written by the bureaucrats.

During my time as Nordic Executive Director, there was not a single real discussion on the top political level organised in the Nordic context for the Governors discussing policy issues for World Bank matters. As a result things go on as usual, all new ideas are rejected and true leadership is thus avoided by the Nordic countries. In the following some examples will be mentioned where some sort of leadership on the part of the Nordic countries was tried:

(a) *Special Facility for Africa:* The Nordic ED suggested that the Nordic countries should take the leadership, initiating and pushing this issue. It was an issue that was originally formulated in the Nordic Office in Washington. However, the bureaucracy rejected the proposal to go ahead, "this is not the way to go". The Facility had not been established if France had not taken the lead.

(b) *Joint window with the Bank and the Fund:* The first reaction from the bureaucracy on this issue was to reject it because LDCs would not like to see the Bank too close to the Fund. Still, something was obtained as the SAF and the Trust Fund were utilised for the objectives which could be said to correspond to the Nordic line. However, all this happened without formal Nordic contribution even though the idea originated from the Nordic ED.

(c) *Allocation of IDA money for Africa:* The idea was that IDA funds should be concentrated to the poorest African countries, while Asia should be taken care of by a Third Window financed mainly from the Japanese current account surpluses and with conditions somewhere between IDA and IBRD loans. This is a very complicated issue and hence it was difficult to pursue policies and take leadership in this matter. But on the other hand, there was a total lack of initiative in the Nordic bureaucracies to work out and present alternatives along such lines that could fundamentally change the institutions and their functions. It seems it is too risky to advocate any change which has not been part of the rhetoric for several years.

(d) *Debt question:* In 1984 the discussion of debt crisis and debt relief to Africa was discussed among the Nordic Central Bank governors. Most speakers favoured the IMF case by case approach. "The crisis is temporary, improvement is just around the corner." There seemed to be little response to take seriously the debt issue and not at all to talk about Nordic leadership. This position does, however, reflect the fact that it is the Central Banks that are responsible for IMF matters and they are always, even on a world level, more conservative in their attitudes than the bureaucracies of ministerial departments which deal with the Bank matters. There seems to be no national policy in these fields, but institutions run their own foreign policy, thus one is not surprised that there are conflicting policies coming from one and the same country.

What then is the Nordic line? I must say there is lots of good rhetoric on the part of the Nordic countries in this field. But I think this rhetoric is about to loose its appeal even among the LDCs because there is a gap between the rhetoric and actual policy in concrete questions. Nordic countries have always emphasised questions such as income distribution and as well basic needs, rural development, women in development and education. However, without scientific research and political debate these issues easily become empty words without credibility. This risk, which I saw materializing to some extent, is most unfortunate at a time when the US leadership and interest in World Bank matters is disappearing and the larger European countries are too close to the US to take an independent course. Therefore there is a great opportunity for the likeminded countries and the LDC to form the ruling majority in the Bank. I can only wish that the Nordic governments and their bureaucrats could see the challenge for the Bank that arises from the African crisis and the debt problem that is about to undermine the whole financial system created after the World War II.

HANS LUNDSTRÖM

Much of what has been said here the last few days reminds me of a piece of grafitti I once saw: "Don't adjust to reality, it may be wrong". Yes, of course the external environment to which African countries have to adjust is all wrong in the sense that record low commodity prices, record high real interest rates, drastically declining net capital inflows, etc., have placed impossible burdens on many of them. And still, this is the reality to which they have to - and will - adjust, one way or another. Basically, IMF conditionality is a reflection of this dismal reality. So changing the external environment - e.g., by increasing substantially non debt creating resource flows - is the only way of fundamentally changing the burden of adjustment and, by the same token, the impact of conditionality. But as Frances Stewart herself observed, that is another conference. And I am afraid that most of Knud Erik Svendsen's very interesting and stimulating remarks belong to one such other conference, since this one is supposed to deal with conditionality. I should only like to note in passing that making the environment less hostile to adjustment and growth is a main concern of the IMF and it governs most of its activities.

My second observation is on the alleged "class bias" of IMF-supported adjustment programs. I hold that these programs are not more "class biased" than other adjustment programs or - for that matter - than unprogrammed adjustment. If anything, IMF supported programs have the effect of making adjustment a little less painful - mainly by way of the financing with which it is linked but perhaps also because there is a growing interest in the Fund of the income distribution effects of adjustment.

This brings me to Knud Erik Svendsen's and Pekka Korpinen's remarks on the Nordic countries and their Fund/Bank policies, because I think that there is indeed a case for taking a closer look at the distributional aspects of conditionality and that the Nordic countries are well placed to play an active role in this connection. As a matter of fact, we have already taken some steps in that direction.

In an Executive Board symposium in the Fund in July 1985, we referred to the effects of Fund-supported adjustment programs on the distribution of income as a difficult and sensitive issue, and went on:

> Inevitably there are such effects, but they are primarily the concern of the member country itself, and since there must be no interference with its autonomous competence and responsibility in this regard, it is easy for the Fund to say that this is not its concern. So much the more so, since the study on fiscal policy and distribution of income concludes that there is no evidence that Fund-supported adjustment programs are more damaging to income distribution than practical alternatives. But that would be a very passive attitude. I submit that it might be possible for the Fund to declare itself ready, should the member so request, to analyze the distributional effects of a

> program under discusssion. In a second stage, the Fund, still on request, might help to revise those program components - if any - that were likely to generate unwarranted effects. It would have to be up to the country itself to decide what should be considered warranted or unwarranted.
>
> The Fund would only attempt to present alternatives. It should be repeated that such a procedure should not in any way detract from members' responsibility for the ultimate design of the program. A related - partly overlapping - issue is that of the impact of Fund programs on employment, social programs and provision of basic needs. I think there is an emerging concensus that such factors have a bearing on the prospects of pursuing macroeconomic policies successfully.

I shall go on, if I may, with a few more quotations.

In his address before the ECOSOC in July 1986, Mr de Larosière, the former Managing Director of the Fund, took up this issue and said:

> The Fund has neither the mandate, nor the staff, nor the technical capacity to design health, nutrition, or educational programs in developing countries. That important responsibility falls instead to other UN related agencies that specialize in these areas. This does not mean that the Fund cannot do its part to help developing countries protect basic human needs. Over the past two years, we have, in fact, expanded our contacts with some of these agencies in order to advance our mutual understanding of how the most vulnerable groups might best be protected during the adjustment process. In addition, when requested by a member country, Fund missions may consider with the authorities the implications of alternative approaches to adjustment for the distribution of income. But let there be no doubt. The final decisions about adjustment strategies and spending priorities - and they are tough decisions - must rest with the country itself. The Fund cannot make those decisions.

He returned to this question in his address at last fall's Annual Fund/Bank meetings when he mentioned that the Fund and the Bank were prepared to "help members make more informed choices about the growth and income-distribution implications of alternative forms of adjustment".

In his press conference after the meetings Mr de Larosière, in answer to a question on cuts in defense spending versus cuts in health programs, was more explicit:

> We can help when we discuss an adjustment program ... to identify as best we can the different alternatives for budgetary actions on the spending side that could help preserve some basic health or nutritional programs, and thus lay out the options better for the country to consider in choosing public sector spending cuts. It is something that we can help on, with the assistance of the World Bank. We have also been working rather closely with UNICEF on that subject to understand better what is at stake. Sometimes the amounts are not very large. I really think we should pay attention to these aspects in designing a Fund program. We cannot go very far, however, because it is up to the countries to make their own sovereign choices, and we will certainly not take it upon ourselves to pick, here and there in the budget, items that we think should have priority because that would involve us in very delicate areas, touching on the sovereignty of countries; but if it is the wish of member countries, we would like to be

> able to assist them better in the formulation of such alternatives. We had a discussion in the Executive Board a year ago on that very theme. What I expressed in my speech in Geneva is a reflection of that discussion. So it is not only my idea: it reflects the view of the Board on the subject.

The question is being pursued, inside the Fund and in other quarters. Let me only refer to a recent unpublished manuscript by Vito Tanzi, Head of the Fund's Fiscal Affairs Department, who discusses an approach in which the Fund

> ... in cooperation with the country's experts, would make an inventory of the various changes in both the level and structure of taxes and of public expenditure that would be required to promote the country's growth objective. In this search it would have to take into account the importance that the country's authorities attached to such objectives as equity and the provision of basic needs. The task would then be to determine whether the proposed changes add up to a macroeconomic adjustment package that is consistent with the balance of payments objective.

Mr Tanzi suggests that "there is a trade-off between the size of the needed demand constraint and the extent of the structural changes... . The more daring and timely [the country's authorities] are in introducing structural changes, the more flexibility they would have in demand management".

Now, thinking along such lines is by no means limited to the Fund. John Loxley in his paper on Alternative Approaches at the Nairobi symposium in 1985 made constructive suggestions, partly pointing in the same direction. And Frances Stewart's interesting discussion of "meso policies" at the beginning of this conference is another case in point.

Firstly, most countries do not seem to be overly interested in the Fund concerning itself with income distributional effects of adjustment. This may be dressed up as a sovereignty issue, but the real problem may be a more ideological one. I would very much like to hear views of the representatives of developing countries and Fund critics on this issue. Secondly, most African developing countries lack the institutional capacity of designing independently their own alternative adjustment programs as a basis for negotiations with the Fund and the Bank. I do not subscribe to the confrontational approach to the design of adjustment programs. Nor do I think that views are so opposite or divergent between the Fund and the Bank on one hand and the borrowing countries on the other as suggested by some speakers. But having said this, I agree that there is a case for strengthening the capacity of many developing countries to play a much more active part in program design and - I would add - their capacity to implement their programs. If the Nordic countries could lend increased support in this field, that might be another way of marking their interest in the conditionality issue.

ULRIK HAXTHAUSEN*

The Nordic governments are recognizing the need for adjustment and long term development and they find it important that careful analysis is undertaken of the social implication and distributional effects of adjustment programs. On the one hand, the effect on the poorest groups of the population of reductions in public expenditure or abolishing food subsidies must be minimized in order to avoid political and social destabilization. On the other hand, the adjustment measures that have a positive effect on income distribution and social development must be better identified.

Therefore at the meeting of the Development Committee in September 1986, the Nordic countries proposed that the Committee should request the Bank to prepare a comprehensive special report on the effects of growth strategies and adjustment lending on the poverty orientation of the Bank group. This report should provide the basis for a discussion on the subject at the next Committee meeting in April 1987. The proposal was supported by other members of the Committee and reflected in the communique of the meeting. The objective of this Nordic initiative is that the Bank in preparing adjustment lending programs should pay due account to their effects on the most vulnerable population groups.

I must say that I respectfully disagree very much with what my honorable predecessor as Nordic Executive Director of the Bank (Pekka Korpinen) just said. I think we, the Nordic countries, have an important role to play in the World Bank. We are a very homogeneous group, we have no colonial past and we are frontrunners regarding official development assistance. I have indications from others as well, that the Nordic group should not underestimate what it can accomplish in the Bank. The Nordic countries have upheld and pursued priorities like poverty alleviation, environmental issues and women in development. I think Korpinen is right that these subjects might perhaps not have a great deal of appeal in the developing countries, but they certainly have a great deal of appeal in our own countries. If we do not try to shift the policies of the Bank to give higher priorities to these issues, the public support for the Bank in our countries will perhaps not fall away, but it will be smaller.

It is further not my impression that politicians and journalists show a lack of interest for the World Bank. In my 18 months as Nordic ED in the Bank I have had visits by Nordic politicians or groups of politicians and also I find that journalists show interest in these issues.

*Editor's summary of Haxthausen's verbal intervention, approved by Haxthausen.

Finally I will touch upon the issue put forward by Knud Erik Svendsen that we must do something with the debt that low income developing countries have to the Bank. Some of the poorest countries in Africa used to be able to borrow in the Bank. Now, they cannot do that any more, because they are not creditworthy, but are paying back on their loans. This is certainly a big problem. The Bank is very firm on the issue of retrieving its debt, otherwise its status as preferred creditor will be touched. If the Bank allows debts to be written of, it will have an impact on the Bank's credit worthiness which will mean that it cannot borrow at the present low interest rates, something which will be to the detriment of all the developing countries.

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List of Abbreviations

AR	Annual Report (of World Bank)
b.	billion
BFF	Buffer Stock Financing Facility
BOP	Balance of Payments
c.i.f.	cost insurance freight
CBN	Central Bank of Nigeria
CFA	Communauté Financière Africaine
CFF	Compensatory Financing Facility
CIDA	Canadian International Development Agency
DANIDA	Danish International Development Agency
EFF	Extended Fund Facility
f.o.b.	free on board
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development (the World Bank)
IDA	International Development Association (of World Bank)
IFAD	International Fund for Agriculture Development
ILO	International Labour Office
IMF	International Monetary Fund
K	Kwacha (Zambian Currency)
LDC	Least Developed Countries
LPA	Lagos Plan of Action
MAN	Manufacturers Association of Nigeria
N	Naira (Nigerian Currency)
NESP	National Economic Survival Programme
NIEO	New International Economic Order
NLC	Nigerian Labour Congress
ODA	Official Development Assistance
PL 480	Public Law 480 (of the US)
SADCC	Southern Africa Development Coordination Conference
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Programme
SECAL	Sectoral Adjustment Loan
SFEM	Second Tier Foreign Exchange Market
SIAS	Scandinavian Institute of African Studies
SIDA	Swedish International Development Authority
SSA	Sub-Saharan Africa
TAG	Tanzania Advisory Group
TAZARA	Tanzanian Zambian Railway
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
US	United States
US$	US dollar
WIDER	World Institute of Development Economics Research
£S	Sudanese Pound

Appendix I. CONTRIBUTION OF COPPER INDUSTRY TO DOMESTIC PRODUCT, GOVERNMENT AND DOMESTIC EXPORTS, 1964-1984

Year	Gross Domestic Product	Contribution of Copper		Average Percentage	Govern-ment Revenue	Contribution of Copper		Average Percentage	Domestic Exports f.o.b.	Contribution of Copper		Average Percentage
	K Million	K Million	%	%	K Million	K Million	%	%	K Million	K Million	%	%
1964	474	215	45		108	57	53		327	297	91	
1965	711	290	40	43	189	134	71	61	375	343	91	94
1966	848	379	44		255	163	64		490	461	94	
1967	957	379	39		247	148	60		467	434	93	
1968	1062	411	38		301	176	58		541	516	95	
1969	1314	637	48		400	235	59		754	724	96	
1970	1278	455	36		435	251	58		710	681	96	
1971	1180	268	23		316	114	36		480	450	94	
1972	1348	317	24	29	302	56	19	42	536	491	92	94
1973	1591	506	32		385	108	29		738	698	95	
1974	1893	607	32		647	341	53		900	839	93	
1975	1583	204	13		448	59	13		518	472	91	
1976	1941	330	17		443	12	3	3	749	689	92	
1977	2024	223	11	14	499	-1	-		706	645	91	90
1978	2259	272	12		550	-	-		675	597	88	
1979	2660	486	18			-	-		1087	897	90	
1980	3063	490	16		768	42	5		1020	872	94	
1981	3485	472	14		820	10	1		930	836	94	
1982	3595	381	11	14	841	-	-	3	945	855	93	90
1983	4181	619	15		957	42	4		1048	930	92	
1984	4931	645	14		1003	61	6		1181	1031	88	

Source: *Country Profile - Zambia 1985*, p. 25, Central Statistical Office, September 1986.

Appendix II. COPPER OUTPUT, PRICES, COST OF PRODUCTION AND LABOUR PRODUCTIVITY.

Year	Production in Tonnes	Prices per Tonne in Kwacha	Cost per Tonne in Kwacha	Number Employed	Quantity Tonnes Produced per Worker
1964	644,000	693	292	50,600	12.7
1965	686,000	925	330	52,500	13.1
1966	588,000	1091	436	54,780	10.7
1967	619,000	811	407	54,710	11.3
1968	660,000	887	440	55,600	11.8
1969	755,000	1048	353	56,300	13.4
1970	686,000	1011	518	57,640	11.9
1971	636,000	767	563	58,000	11.0
1972	701,000	765	572	58,200	12.1
1973	683,000	1156	650	62,590	10.9
1974	709,000	1327	786	62,400	11.4
1975	648,000	794	852	62,300	10.4
1976	712,000	1007	958	61,000	11.7
1977	659,000	1016	1034	62,000	10.6
1978	654,000	1090	1191	58,600	11.2
1979	584,000	1572	1485	61,700	9.5
1980	609,000	1719	-	62,940	9.6
1981	560,000	1514	-	61,590	9.0
1982	592,000	1374	-	59,530	9.9
1983	576,000	1985	-	57,130	10.0
1984	551,000	2500	-	58,570	9.4

Source: *Monthly Digest of Statistics*, Central Statistical Office, October/December 1985. The figures on cost of production per tonne were obtained from: International Labour Office, *Zambia - Basic Needs in an Economy Under Pressure*, JASPA, Addis Ababa, 1981.

Appendix III. ZAMBIA'S TERMS OF TRADE. 1970 = 100.

Year	Export Prices	Import Prices	Terms of trade
1970	100	100	100
1971	78	105	74
1972	80	111	72
1973	117	126	93
1974	134	157	85
1975	84	194	43
1976	100	217	46
1977	97	249	39
1978	100	307	33
1979	185	381	49
1980	218	502	44
1981	189	584	32
1982	155	700	22
1983	222	840	26

Source: *Economic Reports, 1979, 1981, 1983,* National Commission for Development Planning, Lusaka.

Appendix IV. SUMMARY: FOREIGN EXCHANGE AUCTION.

	Auction 1-26	%	Weekly Average	Auction 27-52	%	Weekly Average	Total 1-52
Bids received (Nos)	6,464	36	249	11,692	64	450	18,156
Successful bids (Nos)	4,347	42	167	6,031	58	232	10,378
Kwacha offered (Mn)	1,305	33	50	2,626	67	101	3,932
Dollars demanded (Mn)	202	35	8	372	65	14	574
Dollars disbursed (Mn)	137	43	5	185	57	7	322

Source: *Bank of Zambia Records 1986*

Appendix V. WEEKLY EXCHANGE RATE MOVEMENTS.
(Base Kwacha 2.20/US$ 1)

Auction No.	Date	K/US$ Rate
1	11/10/85	5.01
2	18/10/85	6.01
3	25/10/85	7.00
4	31/10/85	6.44
5	08/11/85	6.25
6	15/11/85	6.03
7	23/11/85	5.80
8	30/11/85	5.75
9	07/12/85	5.74
10	14/12/85	5.75
11	21/12/85	5.77
12	28/12/85	5.70
13	04/01/86	5.76
14	11/01/86	5.86
15	18/01/86	6.01
16	25/01/86	6.40
17	01/02/86	6.36
18	08/02/86	6.51
19	15/02/86	6.68
20	22/02/86	6.78
21	01/03/86	7.01
22	08/03/86	6.90
23	14/03/86	6.75
24	22/03/86	6.91
25	29/03/86	6.85
26	05/04/86	6.87
27	12/04/86	6.98
28	19/04/86	7.06
29	26/04/86	6.98
30	03/05/86	7.00
31	10/05/86	7.03
32	17/05/86	7.11
33	24/05/86	7.23
34	31/05/86	7.31
35	07/06/86	7.26
36	14/06/86	7.32
37	21/06/86	7.39
38	28/06/86	7.51
39	05/07/86	7.71
40	11/07/86	8.07
41	19/07/86	5.03
42	26/07/86	6.08
43	02/08/86	5.01
44	09/08/86	5.35
45	16/08/86	5.76
46	23/08/86	6.26
47	30/08/86	6.87
48	06/09/86	7.00
49	13/09/86	5.64
50	20/09/86	6.37
51	27/09/86	7.09
52	04/10/86	7.64

Note: 1. The Base is the Kwacha/US dollar exchange rate ruling as on October 3, 1985.

Source: *Bank of Zambia Records 1986*

Appendix VI. ANALYSIS OF FOREX ALLOCATION BY TYPE OF GOODS AND SERVICES.

Type of Goods/Services	Amount in US$ '000			
	1-26	27-52	Total	%
Consumer Goods				
1. Food Products	1,596.9	2,225.8	3,822.7	1.12
2. Edible Oils and Fats	-	104.9	104.9	0.03
3. Beverages and Tobacco	139.2	281.1	470.3	0.14
4. Soap and Detergents	788.7	324.4	1,113.1	0.33
5. Medical and Pharmaceutical	1,547.5	1,275.9	2,823.4	0.83
6. Textile Products	805.8	730.4	1,536.2	0.45
7. Paper and Paper Products	2,668.4	2,378.5	5,046.9	1.68
8. Miscellaneous Goods	2,204.4	3,461.5	5,665.9	1.66
SUB TOTAL	9,800.9	10,782.5	20,583.4	6.02
Intermediate				
1. Fertilizers & Pesticides	986.2	-	986.2	0.09
2. Crude Oils	5.9	31,689.7	31,695.6	9.27
3. Beverages and Tobacco	3,381.0	1,911.3	5,292.3	1.55
4. Petroleum Products	5,301.5	2,586.3	7,887.8	2.31
5. Iron Steel	233.0	5,829.3	6,062.3	1.77
6. Soap & Detergent Materials	3,172.5	43.4	3,215.9	0.94
7. Rubber Manufacturers	3,659.7	775.6	4,435.3	1.30
8. Other Chemical Materials	7,778.2	10,419.3	18,197.5	5.32
9. Paper Products	702.3	1,269.0	1,971.3	0.58
10. Building Materials	5,695.4	2,442.3	8,137.7	2.38
11. Industrial Spares	697.6	11,833.8	12,531.4	3.66
12. Agricultural Spares	347.0	3,932.9	4,279.9	1.25
13. Transport Spares & Requisites	8,359.1	7,629.9	15,989.0	4.67
14. Telecommunication Spares	-	21.7	21.7	0.01
15. Textiles	5,492.7	3,896.6	9,389.3	2.74
16. Other Goods	8,608.7	20,509.9	29,118.6	8.51
SUB TOTAL	54,420.8	104,791.0	159,211.3	46.56
Machinery & Equipment				
1. Tools and Hardware	190.6	1,873.1	2,063.7	0.60
2. Industrial Machinery	13,219.1	3,700.2	16,919.3	4.95
3. Agricultural Machinery	5,579.1	3,757.7	9,336.8	2.73
4. Transport (Passenger)	962.6	4,180.2	5,142.8	1.50
5. Transport (Commercial)	2,373.1	5,471.2	7,844.3	2.29
6. Electrical Equipment	3,035.4	2,975.9	6,011.3	1.79
7. Telecommunication Machinery	50.3	277.9	328.2	0.10
8. Other Machinery	2,984.1	2,952.2	5,936.3	1.74
SUB TOTAL	28,394.3	25,188.4	53,582.7	15.66
Miscellaneous Goods				
1. Agricultural Requisites	19.4	2,321.1	2,340.5	0.68
2. Office Equipment	6.9	943.5	950.4	0.28
3. Professional Appliances and Spares	32.9	1,614.1	1,647.0	0.48
4. Accounting and Computing Machines	25.7	1,022.9	1,048.6	0.31
5. Other Miscellaneous Goods	6,931.0	2,032.5	8,963.5	2.62
SUB TOTAL	7,015.9	7,934.1	14,950.0	4.37
Services				
1. Loan Repayment (Principal)	3,443.8	2,935.7	6,359.5	1.86
2. Loan Repayment (Interest)	57.8	681.1	738.9	0.22
3. Dividends and Profits	154.5	4,581.0	4,735.5	1.38
4. Royalties and Commissions	149.7	573.6	723.3	0.21
5. Management Charges and Fees	3,864.1	1,579.7	5,443.8	1.59

ppendix VI. (cont'd)

ype of Goods/Services	Amount in US$ '000			
	1-26	27-52	Total	%
ervices				
Clearing and Freight	4,107.9	4,278.4	8,386.3	2.45
Remittances	-	312.1	312.1	0.09
Insurance	5,148.8	2,929.4	8,078.2	2.36
. IATA Obligations	-	6,829.4	6,829.4	2.00
). Other Services	2,630.6	9,231.8	11,864.4	3.47
SUB TOTAL	19,537.2	33,932.2	53,469.4	15.63
llocation to Banks				
. Overdue L/Cs	20,760.1	12,000.0	32,760.1	9.58
. Commercial Banks Working Balances	-	7,500.0	7,500.0	2.19
SUB TOTAL	20,760.1	19,500.0	40,260.1	11.77
GRAND TOTAL	139,930.3	202,128.2	342,058.5	

ource: *Bank of Zambia Records 1986*

Appendix VII. SUMMARY: SECTORAL DISTRIBUTION OF FOREIGN EXCHANGE

	Auction 1-26	%	Weekly Average	Auction 27-52	%	Weekly Average	Total 1-52
Agricultural Sector							
Bids Received (Nos)	583	35	22	1,084	65	42	1,667
Successful Bids (Nos)	333	39	13	520	61	20	853
Kwacha Offered (Mn)	81	28	3	198	72	8	279
Dollars Demanded (Mn)	15	33	0.5	30	67	1	45
Dollars Disbursed (Mn)	7.5	39	0.3	11.8	61	0.4	19.3
Manufacturing Sector							
Bids Received (Nos)	3,076	35	118	5,766	65	222	8,842
Successful Bids (Nos)	2,021	42	78	2,761	58	106	4,782
Kwacha Offered (Mn)	595	32	23	1,239	68	48	1,834
Dollars Demanded ((Mn)	92	37	4	158	63	6	250
Dollars Disbursed (Mn)	62	46	2	72	54	3	134
Parastatal Sector							
Bids Received (Nos)	1,409	39	54	2,157	61	83	3,566
Successful Bids (Nos)	980	49	38	1,000	51	38	1,980
Kwacha Offered (Mn)	527	33	20	1,063	67	41	1,590
Dollars Demanded (Mn)	80	32	3	167	68	6	247
Dollars Disbursed (Mn)	57	39	2	90	61	3	147
Other Sectors							
Bids Received (Nos)	1,396	34	54	2,685	66	103	4,081
Successful Bids (Nos)	1,013	37	39	1,750	63	67	2,763
Kwacha Offered (Mn)	102	45	4	125	55	5	228
Dollars Demanded (Mn)	15	47	0.5	17	53	0.5	32
Dollars Disbursed (Mn)	10.5	48	0.4	11.2	52	0.4	21.7

Source: *Bank of Zambia Records 1986*

Note: Nos = numbers
Mn=millions

Appendix VIII. AUCTION SUMMARY

Auction	No. of Bids	Dollars Requested	Kwacha Offered	High Bid	Low Bid	Successful Bids	Dollar Allocated	Exchange Rate
1	299	16.9	79.7	15.00	2.75	94	4.8	5.01
2	397	12.5	82.8	12.00	3.11	137	5.0	6.10
3	345	10.3	69.1	9.15	2.44	186	5.2	7.00
4	270	10.2	74.1	9.00	4.66	241	7.5	6.44
5	232	8.1	52.6	8.51	4.77	181	6.2	6.25
6	229	4.8	30.8	7.50	3.50	195	4.1	6.03
7	234	5.0	31.2	7.50	4.22	213	3.9	5.80
8	205	4.9	29.9	7.05	5.00	166	4.2	5.75
9	187	4.6	27.3	7.00	4.22	169	4.2	5.74
10	201	5.2	30.7	6.65	5.50	180	4.5	5.75
11	172	4.6	27.3	7.05	5.60	160	4.3	5.77
12	101	3.5	21.0	6.65	5.60	100	3.5	5.70
13	117	5.01	29.46	6.50	4.95	106	4.59	5.76
14	164	5.36	31.90	6.50	4.52	105	4.08	5.86
15	234	6.65	41.53	7.50	4.52	102	3.30	6.01
16	309	10.18	67.71	7.50	4.52	151	4.70	6.40
17	287	6.48	40.58	7.50	4.00	260	6.06	6.36
18	254	7.22	44.24	7.11	4.00	143	3.87	6.51
19	281	6.65	45.21	7.15	6.00	205	5.17	6.68
20	304	11.06	75.67	7.50	5.05	191	7.74	6.78
21	301	10.20	71.53	7.50	5.54	136	5.36	7.01
22	287	7.72	55.90	8.00	6.00	141	5.85	6.90
23	246	7.44	53.16	9.50	6.50	143	5.62	6.75
24	357	10.80	76.23	7.65	6.00	253	8.77	6.91
25	193	8.26	57.74	7.60	6.00	173	7.40	6.85
26	258	8.30	58.14	7.60	6.50	216	7.24	6.87
27	246	9.31	64.93	7.50	4.50	171	3.65	6.98
28	273	11.42	81.47	7.50	6.50	176	8.63	7.06
29	281	8.84	64.3	7.50	4.50	196	6.81	6.98

30	236	7.17	50.87	7.50	5.50	200	6.25	7.00
31	274	8.92	63.27	7.50	6.98	234	7.57	7.03
32	297	10.56	75.31	7.50	5.50	148	3.68	7.11
33	279	7.02	50.85	8.00	6.25	153	3.97	7.23
34	332	10.11	74.96	8.00	6.50	244	7.28	7.31
35	318	7.25	53.24	7.75	6.51	170	3.98	7.26
36	397	11.09	82.18	7.65	7.10	244	6.96	7.32
37	383	12.23	90.17	7.61	5.00	267	7.99	7.39
38	404	12.28	92.18	7.70	5.50	136	6.98	7.51
39	515	15.20	116.58	7.01	8.10	166	7.59	7.71
40	451	12.86	103.13	9.00	5.50	170	3.97	8.07
41	396	15.14	127.98	9.51	5.03	82	4.41	5.03
42	600	21.65	166.65	9.53	4.01	155	7.50	6.08
43	760	24.01	169.03	9.10	5.01	634	20.76	5.01
44	501	17.47	99.32	7.53	4.01	403	10.25	5.35
45	542	15.40	89.39	6.85	4.50	220	5.95	5.76
46	621	18.23	111.27	6.85	5.00	173	3.84	6.26
47	690	20.42	136.66	7.75	5.00	288	8.80	6.87
48	674	22.82	164.97	7.99	5.00	571	13.57	7.00
49	418	12.90	94.71	8.01	5.00	369	10.15	5.64
50	484	16.31	101.54	7.83	4.50	121	3.09	6.37
51	606	20.12	136.86	8.00	5.10	167	6.02	7.09
52	711	22.79	165.10	8.11	5.04	172	5.59	7.64
53	769	23.60	177.45	8.56	5.50	128	4.97	8.30
54	734	23.23	192.79	10.25	5.50	125	4.07	9.35
55	493	16.50	149.78	11.51	5.50	84	5.63	10.32
56	517	13.84	146.86	12.50	6.00	119	4.00	11.51
57	439	12.20	133.05	13.15	6.00	111	4.15	12.30
58	407	11.29	138.53	14.41	6.00	116	4.21	13.48
59	327	9.9	134.36	15.17	6.00	124	5.6	14.68
60	257	7.2	106.39	16.52	6.00	142	5.6	15.25

Source: *Bank of Zambia Records 1986*