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STABILISATION IN SUB-SAHARAN AFRICA AND THE IMF: A Critical Review And Prolegemonon - As Illustrated By Tanzania

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> Mistakes are mistakes.
>
> -President Julius Nyerere

> The crisis in Africa in recent years is overwhelmingly the product of external shocks... Without the heavy post-1978 external blows or, given those blows, with adequate international buffers against them, the majority of African economies would not be sliding backward as they are now doing....
>
> - G. K. Helleiner, 1984c

> We must look our mistakes in the face if we are to avoid repeating them.
>
> - Mozambique Finance Minister Rui Baltasar

> We seem at present to be backing into the future one crisis at a time.
>
> - G. K. Helleiner, 1984a

Economic Malaise in SSA: Does the IMF Matter?

The IMF has become a major factor in SSA external economic negotiations and domestic strategy formulations. Without its "seal of approval" expanded World Bank and bilateral programmes and significant debt reschedulings do not happen. Without additional liquidity and import capacity stabilisation and consolidation let alone rehabilitation and recovery do not happen either.

SSA has become a quicksand swallowing up IMF programmes (and protracted unsuccessful negotiations toward programmes) with, in most cases, little to show for them in terms of either IMF or country targets and goals. The IMF and some of its prescriptions have become major figures in African economic demonology. Just as the absence of adequate liquidity and import capacity are, or are in danger of, paralysing most SSA economies so too do dialogues of the deaf about IMF packages - usually in extremely reductionist terms on both sides - paralyse policy making and implementation in a number of SSA economies.

For whatever reasons, the IMF-SSA interaction is rarely serving either the purposes for which the IMF was founded (see Annex) or the goals of SSA governments. However one divides responsibility and however one judges varying analyses and perceptions, it is hard to reject the general applicability of John Williamson's comment on the Tanzania -IMF case (Williamson, 1983, p 652) "The resulting perpetuation of a tragedy does not reflect credit on any of the parties."

The critique which follows concentrates primarily on the IMF's strategies and tactics as applied in SSA not on national policies and responses as such which is not to be taken to imply blanket approval of the latter nor, indeed, that some of them have not been objectively unsound, IMF or no IMF. It - and its explicit or implicit suggestions for change - are within the broad context of the IMF's as set out in Article 1 of its Articles of Agreement (see Annex). In the context of SSA it starts from the present position of deterioration or even disintegration of a majority of economies and assumes that the maximum now possible are limited reforms to halt further deterioration and win limited gains[2] not total systemic restructuring of the IMF and the international monetary system.[3] A general examination at SSA level is followed by an examination of the same points in Tanzania-IMF relations as an illustrative case study.[4]

It is necessary to seek to make two distinctions:

a. between the <u>costs of adjustment</u> and the <u>costs of IMF approaches to adjustment</u> since external economic environment deterioration which is unlikely to be reversed or reversible in the medium term (just as much as unsound domestic policies) does require adjustment and

adjustment by whatever route entails costs (de Laroisiere, 1984; Stewart, 1984). The real questions are whether IMF approaches entail avoidable, additional costs (Helleiner, 1983b, 1984c, Stewart, 1984; Green in Williamson, 1983) and whether they do in fact stabilise in any meaningful sense (as the findings of Killick 1984 and Loxley 1984 suggest they do not);[5]

b. between the positions and actions of the IMF as an institution (or of its staff collectively) and the constraints imposed on it by its dominant industrial economy members. It is clearly arguable that the IMF's approaches would work better - or less badly - with higher ceiling levels of liquidity (low conditionality facilities) and with longer maximum drawing and repayment periods and that the bottom line preventing evolution in this direction by the Fund is the position of its dominant members - especially the USA but also Federal Germany and the UK.[6]

1970-1984: Backdrop To Contiunuing Crises[7]

Over 1970-73 SSA grew slowly absolutely and relative to the 1960's. Over 1973-74 it was the hardest hit of the world's regions by interacting grain price/drought, energy price and general terms of trade shocks. However, in a majority of cases unsuccessful adjustment and recovery was achieved (Dell and Lawrence, 1980; Dell, Lawrence, Helleiner, 1983-4; Griffith-Jones, Harvey, Seers, 1985; Green, Rwegasira, Van Arkadie, 1981; Bank of Tanzania, 1984).

Over 1976-79, taken as a group, SSA economies grew about 6% a year according to the standard UN GDP reporting statistics. This was well above their own historic trend and above that period's developing country average. As the data are constant price, the primary impact of 1975-77 export of price improvement has been stripped out - what remains is the dramatic impact of import capacity fluctuations on SSA production (see also Helleiner, 1984b; Kadhani and Green, 1985). The lagged response of growth to external balance decline - still high in 1979 when the current account deficit was already skyrocketing and moderate in 1980 when the external account crisis was already well established - in fact reinforces the import capacity/capacity utilisation/growth relationship because physical import cuts did not become

general until 1981 or near ubiquitous until 1982 (World Bank, 1984a).
Over 1979-81 many SSA governments attempted to adjust on lines analogous to those they had pursued successfully over 1974-76. As the then OECD - Bank - Fund consensus was that recovery would come in 1981, this, however unwise *ex post*, was not irrational *ex ante*.[8] However, it has now left African economies the most heaily indebted in the world relative to GDP and with the highest debt service to exports ratio of any group of economies (Commonwealth, 1984; Griffith-Jones and Green, 1984; Helleiner, 1984c, Table 2) and with a total external debt including arrears, short term commercial bank credit and IMF drawings as well as the standard official credits/medium and long term bank borrowing listings of the order of $200,000 million (Griffith-Jones and Green, 1984). Further, this situation is worsening rapidly with net inflows (less interest and repayment) likely on present trends to drop 60% fom $13,000 to $5,000 million net a year by the end of the decade (World Bank, 1984a).

Equally, over 1979-84 access both to liquidity (low conditionality) and bridging finance (high conditionality) has been less available relative to external shock caused imbalances than was true over 1974-76 and in particular less available to those poor economies with limited to negligible access to commercial bank credit for whom the IMF is in fact the lender of first - and often almost only[9] - resort so far as liquidity and bridging finance are concerned (Helleiner, 1983a, b; 1984c).

The IMF in SSA: Areas of Debate

The recent history of IMF negotiations and programmes in SSA - and of debates on them - suggest that the major issues can be grouped in eight clusters:

1. Ideological - the Fund as Friedman or Hayekian prophet or as defender of objective scientific eocnomic analysis;

2. Strategies - the appropriateness, or otherwise, of the Fund's basic analysis of the causation of SSA's continuing economic malaise as excessive increases in real resource utilisation and its (consequential) commitment to rapid resource use cutbacks as an appropriate way to rapid stabilisation;

3. Flexibility - the willingness, or otherwise, of the Fund to evaluate alternative adjustment packages, instruments and phasings to its own proposals and to recognise that different causes of imbalance may make significantly different instruments and timings appropriate in different countries;

4. Equal Treatment - do Fund quotas based on uniform ratios to selected economic indicators provide equal treatment or do they in fact discriminate against poor, high vulnerability to external shock, limited access to alternative short term finance economies like virtually all those of SSA?

5. Appropriateness of Criteria - whether IMF targets ("trigger clauses") are good measures of performance and whether fixed points or ranges/adjustable goals should be set;

6. Technical Competence and Tactics - how adequate IMF projections and calculations are, how qualified Fund Missions to Africa are, how authoritarian IMF negotiators are and are seen to be;

7. Protection of Vulnerable Groups - whether the IMF's prescriptions do in practive weigh particularly heavily on vulnerable groups and whether it accepts attempts to limit such impact as a valid component of government stabilisation proposals;

8. Adequacy - whether IMF programmes have been of a size, with a promptness, over a time span and linked to other external resource inflow generation in a way consistent with restoring external balance and laying a foundation for sustainable growth.

Is the IMF an Ideological Watchdog?

The IMF was created as the international financial adjustment mechanism for the rebuilt world capitalist external payments system. Further because world trade and payments are dominantly capitalist in form and substance (even among socialist economies), adjustment to external shocks is not and cannot be

totally different for capitalist and socialist economies. To that extent the IMF is capitalist and can hardly avoid being so.
More particularly the IMF is opposed to controls on trade and payments and to price management[10] both externally and domestically. It has a distinct preference for the use of market instruments (e.g. exchange rates, grower price, interest rates) with as little state "interference" as possible. This is ultimately an ideological preference if an ideology is defined as a paradigm or weltanschaung forming a framework within perceived reality.

Certainly the IMF seems to underestimate the imperfections and limitations of markets especially under conditions of fragmentation, inflexibility and extreme shortages of quite specific real items (as opposed to macro monetary aggregates). That in itself is probably a result of its ideological perception but is not in itself ideological.

The combined effect of these factors is to make negotiation tedious and dialogue largely of the deaf in respect to those African governments who seek to use multi-instrument packages including significant non-price allocative instruments - ironically especially so if their economies are not socialist.[11]

The IMF is not in any rigorous sense monetarist. It is oriented to control (reduction) of demand by control of macro-monetary aggregates with supply expansion seen as coming later via price incentive motivated increases in productive investment and exports. That approach may be inappropriate in respect to many economies but is neither monetarist in the Friedmanite sense nor ideological per se. Certainly the Fund does not subscribe to the Hayekian true believer theorem that free markets make free men - if for no other reason because freedom (apart from that of markets) is simply not on its agenda. Indeed, IMF officials accept, in private at least and in more guarded terms in public (e.g. Finch in Williamson 1983) that the price of accepting and acting on IMF programmes is very likely to be loss of office via electoral or other methods and that its programmes are probably particularly difficult for democratic, publically accountable governments to accept and to implement.[12]

In a negative sense the IMF is ideological in showing to date little or no operational (as opposed to very general high level verbal) concern with the

impact of its programmes on vulnerable groups or how they could be shielded. This topic is discussed in greater detail below.

This review suggests that ideology is not the main barrier to negotiating workable stabilisation programmes with the IMF; an irritant yes, a primary cause of deadlock rarely if ever. Certainly it does not support conspiracy theories positing the IMF's chief goal as undermining populist, welfarist or socialist states in the interests of some amorphous world capitalist conspiracy or more closely defined emanations thereof. The translation of the debate to the ideological level by some IMF critics and proponents (and on occasion by some Fund mission members) makes a largely negative contribution to understanding the issues at stake or how they might be resolved.

Overheating and Imbalance - Is the IMF Model a Muddle?

For Africa, especially since 1979, this model simply does not fit. Reduction of supply (and particularly of physical import supply and real government revenue and of domestic food availability in a majority of cases) not increases in real resource use set off the negative spiral. Even in these cases - e.g. Zimbabwe 1980-81 - in which overheating did play a significant role, adjustment by 1984 had usually gone far enough to have minimized the domestic policy contribution to imbalance (cf. Kadhani and Green, 1985).

Inflexibility not flexibility and fragmentation not articulation remain the hallmarks of African economies. Sharp shifts of goods from domestic use to, or sharp increases in utilisation of idle capacity for, export are not practicable in the way they are in Italy or Portugal or Turkey where fairly diversified industrial exports are a relatively large proportion of total exports.[13] The actual basic unprocessed commodity export volumes often cannot respond sharply and promptly to price incentives alone and if they did in all or most SSA economies, this would reduce net export earnings because of the inelastic demand curves they face.[14]

The standard IMF model posits a need for increased domestic savings and fixed investment. As applied recently in SSA almost the whole emphasis is on raising domestic savings (via cutting government financing requirements[15], freeing prices and raising interest rates) presumably because present gross

fixed capital formation levels already exceed domestic savings by 50 to 150% in many SSA states.

Whether raising domestic savings is practicable is unclear. With earned import capacity (export earnings) at or below operating import levels and these already 25 to 50% below the levels needed to maintain and operate existing core production and infrastructure capacity, ex post domestic savings cannot exceed the domestic content of fixed investment. This (allowing for indirect as well as direct imports) seems to be in the 25 to 50% range. In many SSA economies - e.g. Tanzania, Zimbabwe, Ivory Coast - domestic savings in the past few years do seem to be at these levels. They can therefore not be increased absolutely except by expanding exports or increasing the complementary external finance. Increasing them relative to GDP by reducing GDP is possible, but hardly a contribution to adjustment or consolidation.

More fixed investment is probably not a priority. With arrears of maintenance, general underutilisation of capacity and a higher import ratio to fixed investment than that pertaining to other components of GDP (so that a fixed investment increase ceterius paribus increases capacity growth but reduces achievable GDP levels)[16] the case for a generalised increase in fixed investment until adjustment, consolidation and rehabilitation are achieved is very hard to make.

However, there is a strong case for altering the composition (and quite possibly reducing total volume of) fixed investment toward: rehabilitation and maintenance, export and import substitution (especially in respect to existing food, energy, agricultural imputs, and basic incentive goods imports) and bottleneck breaking (e.g. energy and personpower development). This is no longer, as it was when the author first advanced it in 1980, an eccentric position; it is now approaching conventional wisdom status (e.g. World Bank, 1984). The IMF's macro monetary model because of its aggregation and its limited attention to real (as opposed to monetary) elements does not and cannot provide much insite into such micro and sectoral real issues in investment any more than in production. It has not, in fact, been supplemented by serious real side analysis nor married to the World Bank's structural adjustment approach which arguably relates more directly and relevantly to SSA stabilisation and consolidation as well as rehabilitation and renewed growth issues.[17]

The case for reducing or eliminating recurrent budget deficits is much stronger. Whether they reduce total private and public savings or not, they do tend to be inflationary and to reduce fiscal control by removing a reasonable, definable rule - recurrent expenditure covered by recurrent revenue. Where the basic cause of the deficit is falls in real government revenue, the initial assumption would seem to be that restoration of balance should be primarily by restoration of real revenue levels - a presumption the IMF does not reject. Where it is caused by sudden and massive increases in production or consumption subsidies, the first step should be to analyse why these have been raised and whether price adjustments - eg devaluation - could significantly reduce them and at what real cost. The IMF does agree with this approach albeit it is not willing to accept that in many SSA economies the only likely <u>short</u> run gain from devaluation is improved recurrent budget balance.

The lumping of the investment finance requirement with the recurrent deficit is analytically unsatisfactory. This is especially true when no account is taken of actual uses or of sources of finance. Borrowing for investment by a government or a firm may or may not be prudent and certain sources may be appropriate or inappropriate but the ratio of borrowing to turnover or EDP is not, by itself, a very good test of either. Much more detailed analysis is needed for such testing.

The problem with restoring real revenue levels as a means to restoring recurrent budget balance is that the falls usually relate to reduced import capacity - directly and (often dominantly) via impact on partially import dependent domestic manufacturing and on company profits which are often major sources of sales and of income tax revenue. Thus, real revenue falls are a symptom of falls in earned import capacity not offset by increased access to liquidity and bridging finance. As such their cure (by financing at least interim restoration of real import levels) would logically seem to be one of the targets to be included in Fund Programmes for most SSA economies. However, although the Fund does not in general reject this explanation of real revenue falls, it does not seem to see reversing them as a significant component of Programme goals.

Flexibility: Adapting to Actualities and Alternatives

IMF Missions to SSA countries have not adapted their model significantly in respect to varying economic structures, their prescriptions in response to diverse eocnomic situations and causal patterns of imbalance or their proposed instruments and timing in relation to either. (For a similar conclusion more generally see Killick, 1984a, 1984b).[18] The case that imbalances resulting from loss of purchasing power through exogenous shocks require different - and probably real supply restoration not macro monetary contraction biased - adjustment from those caused by standard domestic overheating or that structural parameters limit what types of programme are feasible and effective in ways which both make SSA eocnomies unlike those of the upper middle income group and imply the need for substantial variation among African programmes. Attempts to define alternative adjustment programmes by SSA governments are seen as attempts to avoid adjusting.

The resulting "belief that the Fund would not seriously consider alternatives to its own package" (Stewart, 1984) leads:

a. to lack of sustained attention to defining such packages;

b. if the IMF package is seen as unacceptable but as a precondition for external finance, either to fatalism or to somewhat febrile attempts to devise packages which might please the IMF but offset the negative side effects perceived in its prescription - often with limited attention to internal consistency;

c. to a reactive counter dogmatism - especially on any use of prices and markets to manage the economy and most particularly on devaluation - which opposes instruments simply or largely because the IMF support them with little evaluation of whether they are individually useful or even necessary and, if so, how they could be positioned in acceptable overall strategies.

Devaluation proposals - usually of about 30%, 60% or 90% (i.e. increasing the cost of foreign exchange by 42½%, 150% or 900%) - are almost ubiquitous and almost always presented as preconditions or initial year actions with phased or delayed exchange rate adjustment seen as inappropriate.[19] The reality that

massive devaluations do raise inflation and - taken by themselves - generate nothing as surely as the need for another massive devaluation has been taken into account by advocacy of small, frequent past - devaluation adjustments to prevent reappreciation of the real comparative purchasing power exchange rates. Taken by itself this instrument is much more desirable under SSA conditions than sticky exchange rates punctuated by sharp devaluation. However, the logic of combining this type of adjustment to prevent increased overvaluation with two to three year reversal of previous overvaluation phased to parallel output increases and cost reductions (on greater capacity utilisation) gains from the programme thus reducing human and political costs and reducing the damage of massive shocks to already weak and brittle economies is not one the Fund appears willing to consider.[20]

Higher interest rates (irrespective of probable effects on savings or inflation), reduced government financing requirements (irrespective of the short or long term costs of consequential service or productive investment cuts), attempted increase of export producer (and sometimes food producer) real incomes and incentives by massive nominal price boosts (without regard to whether the producers physically can respond, whether supplies of desired goods are adequate to cause the grower price increases to generate anything other than broader price increases, whether it is plausible to raise the domestic real price of commodities whose global real prices are falling or whether the income redistribution implied by raising one substantial group's real incomes while national output per capita is falling are either economically plausible, socially acceptable or politically practicable), abolition of all consumer subsidies (irrespective of what groups are affected how severly or whether the subsidies are a significant fraction of recurrent spending) and "liberalisation" (i.e. substituting high prices for market management and allocation by use) of imports (irrespective of probable impact on import mix, income distribution and/or production) are almost equally ubiquitous proposals. They too are seen as needing to be front end loaded, i.e. administered as a short sharp shock with most of the costs at once and the benefits trickling in later.

There is one major exception to this rule. In an increasing number of SSA economies the IMF does accept that present import levels are so low as to prevent effective maintenance or reasonable utilisation rates for existing capacity. For these economies it is willing to prescribe delayed import

liberalisation because it accepts that further import reduction could be counterproductive and that at import levels attainable in the short term market mechanisms would not "clear" well.

This distinct lack of flexibility ignores four facts:

1. the basic cause (initially and even more today) of SSA's economic decline is loss of import capacity not expansion of resource utilisation;

2. in that context policy reforms - especially on the price side - can yield results and be sustained only if substantial additional external resources are made available on a phasing which puts benefits in step with costs (e.g. World Bank, 1984a);

3. differential performance by SSA economies through 1980 was much more closely correlated with external economic environment changes than with domestic policies (Wheeler, 1984);

4. that while "some political and economic pressure may contribute to appropriate policy reform; too much, however, when applied to fragile administrative and planning systems, is capable of inducing policy paralysis" (Helleiner, 1984c) or indeed to a blanket reaction against any meaningful policy reform.

Equal Treatment or Negative Discrimination?

The IMF contends that its conditions and quotas are applied and computed uniformly. In a formal sense this is largely - though not totally - correct but perhaps in a way similar to Anatole France's comment that the law equally forbad rich and poor alike sleeping under bridges. The goals of the IMF can reasonably read in terms of providing equally effective access to liquidity and bridging finance to all members in proportion to the size of their adjustment requirements (especially those initially caused by external shocks) not financable by other means. Equal treatment in that sense is not available to SSA or other poor economies.

The uniformity of treatment would require taking account of:

1. differential availability of <u>alternative sources of liquidity</u> (e.g. being a reserve currency issuer, participation in swop arrangements, access to commercial bank finance) - with an offsetting positive discrimination in favour of economies ill placed in this respect;

2. <u>size of exogenous shocks</u> (e.g. weather, terms of trade shifts, negative export volume shifts on demand/protection side) relative to balance of payments - with quotas or at any rate access to Fund reserves related positively to vulnerability to shocks;

3. <u>capacity to adjust rapidly</u> - with greater access and longer repayment in respect to economies with limited flexibility and resource reallocability.

These criteria all suggest greater than standard access to IMF resources and longer than averge repayment periods for SSA economies as a group and for all but a handful considered individually.

In fact the IMF has no such provisions either in quota levels, eligibility to draw or actual levels of drawings programmed. Quite the reverse and increasingly the reverse. The poor economies are excluded from the use of General Agreement to Borrow and Saudi loan resources; the Compensatory Finance Facility has been converted from low to high conditionality; quota increases in 1983 (at least for poor economies) were virtually or even more than offset by cuts in ceiling percentages of quota to be drawn annually, in a programme or overall; the Trust Fund loans and interest subsidies initiated in response to 1973-74 shocks has been wound up as has the complementary low conditionality oil facility; the 1980-81 swing toward larger and longer programmes under the Extended Fund Facility aegis has, at least for SSA, been reversed dramatically (Helleiner, 1984c).

At the end of 1981 25.8% of outstanding IMF credits and 47.1% of total commitments were to low income ($300 or less per capita in 1978 prices) countries and a total of 55.8% of outstandings and 66.7% of commitments to lowand lower middle income (up to $699 per capita) economies. (de Vries, and Porzecanski in Williamson, 1983, pp 68-9). By July 31, 1984 low income (under

$410 per capita 1982 prices) outstandings were 9.1% and commitments 8% and low plus lower middle (to $1680 per capita) were 20.5% of outstandings and 23.4% of commitments (IMF, 1984b).

Similarly actual standby and extended arrangements (excluding EFF which would increase the bias) average 80% of quota for low income and middle income countries with drawings (27 of 84) and 109% for upper middle income countries with drawings (9 of 25). (Calculated from Helleiner, 1984c, Tables 5 and 6).

Within low (12 of 14) and lower middle income (7 of 13) countries SSA arangements averaged about or slightly below the overall average - there are no SSA cases of upper middle income drawings.

Therefore in practice low and lower middle income countries, including those of SSA, while needing preferential access in relation to quota sizes as now defined, actually have had falling access relative to total Fund outstandings and commitments and have been able to arrange to draw less relative to quotas than upper middle income countries.

How Appropriate Are The IMF's Criteria?

IMF programme criteria - in general and in SSA - are almost all macro monetary, e.g. exchange rates (devluations), levels of external borrowing, ceilings on domestic credit formation overall and with respect to the government, interest rates (floors), wages (ceilings), grower prices (floors), external commercial payment and debt arrears (minimum reductions). It is true that other targets - e.g. GDP, external finance inflows, export growth - are frequently included in letters of intent, often at the instance of the government, but they are in a real sense peripheral. The criteria - unlike other targets - are set out with definite required levels ("trigger clauses" failure to meet which causes suspension or renegotiation of the programme) to be met quarter by quarter.

This approach is open to criticism on at least six counts (cf. Chapters 22, 24 in Williamson 1983; Commonwealth 1983; Group of 24, 1982; Green 1984a):

1. as criteria they are too numerous, e.g. a single target (or target

range) for Current Account Deficit would serve as well as a control/review device and would provide more flexibility for alternative national programme development;

2. they are all macro or sectoral monetary and tend to abstract from both constraints on and changes in the micro and sectoral real economy;

3. most relate to inputs not outputs, e.g. not to growth of output, import capacity, export earnings or real government revenue;[21]

4. little or no acount is taken of sectoral or distributional impact;

5. point criteria levels - as opposed to ranges - are inappropriate given the levels of uncertainty inevitably surrounding economies as poorly documented and as open to exogenous shocks as those of Africa;

6. the absence of built in mechanisms to alter criteria if, despite full performance on the government policy or practice side, exogenous events, inadequate initial data or failure of the economy to respond, falsify the anticipated results or clearly positive overall movement is too slow to meet one or more criteria.[22]

Technical Expertise, Negotiating Skill and External Imposition

The lack of success of IMF programmes in Africa in their own terms (Loxley, 1984) and the substantial average errors in many projections raise questions not simply as to the adequacy of the IMF model but also as to its global economic projections to the extent they provide the external economic environment frame for the country projections and also as to the competence of country missions in digging out, evaluating and interpreting the (admittedly incomplete and often poor quality[23]) SSA country data. The fact that national teams are also often weak is not a defence - the picture of IMF teams of limited ability and little real grasp of the national economy dealing with limited (in numbers, training, experience and data base) national teams (Helleiner, 1983b) is hardly a reassuring one.

Missions seem particularly 'unlucky' in estimating pipeline current payments requirements and seasonal credit requirement patterns. This is crucial because 'conservative' (i.e. too low) estimates lead to early trigger clause levels not being met and the programme collapsing, not because of government inaction nor because end of year targets were unattainable, but because data had been treated as a topic for confrontational negotiation not attempts at mutual estimation, let alone for range targets when the mutual agreement was on how uncertain the projections were.

For example if an SSA country issues export licenses valid for six months and pays for imports primarily by 90 to 180 day letters of credit and open book credit, then an import license/import forex authorisation cut will take 6 to 9 months to reduce deliveries (recorded physical imports) to the new target levels and 12 to 18 to reduce import payment requirements to them even if carried out in full immediately. If finance to cover the pipeline is not "front end loaded" there will be an increase in arrears which will both cause a withdrawal of new trade credit (in practice substituting arrears for normal trade credit in the external balance sheet) and a sharp country specific increase in the unit cost of imports. IMF missions appear not to grasp these institutional and flow realities and to assume discussions based on them are uniformly (as on occasion they may be) attempts to evade import management rather than to estimate and provide for the short term payments requirements resulting from past transactions.

A similar problem arises if both government and enterprise sector bank borrowing have seasonal patterns which lead to higher domestic credit formation growth in the quarters which happen to come first in the IMF standby year. Again IMF personnel tend to wish to negotiate the seasonal pattern not to estimate it - a process remarkably likely to cause a false triggering of programme suspension.

The IMF's pattern of insisting on "front end loading" putting costs at the beginning and benefits later and the related "short, sharp shock" appraoch delay country's approaching the Fund until the situation is desparate and further delay and embitter negotiations.

The parallel failure of the Fund to favour parallel negotiations with the Bank

(for structural adjustment or sectoral programmes) and bilateral sources (for import support and debt rescheduling) clearly endangers the viability of the programmes since they are usually dependent on significant increases in net external resource inflows - and quick ones at that if the early quarterly "trigger clauses" are not to be pulled.

Further the habit of many IMF Missions to combine pontification on issues well beyond those actually under negotiation (on occasion with only the sketchiest notion of what the structural, institutional, policy or procedural realities of the country are); to make what appear to be "take it or leave it offers" and/or when negotiating to be remarkably and (apparently) deliberately imprecise about what would be acceptable as well as suddenly reopening points on which agreement had apparently been reached, can hardly be said to contribute either to relations of mutual trust or personal rapport with would be borrowers or to an orderly, prompt negotiating process.

The Fund's missions tend to imply that they exercise 'reverse linkage', i.e. deter other lenders when unable to conclude a programme agreement. In fact - except for World Bank SAL's for which an operative higher credit tranche fund agreement is a precondition - 'reverse linkage' probably does not consist primarily or even significantly of Fund lobbying so much as of a 'follow the leader' policy on the part of many bilateral sources combined with the fact that an SSA country seeking but unable to secure a Fund agreement normally has commercial and debt arrears, a massive current account deficit and a visibly deteriorating economy all of which do deter providers of concessional and commercial finance, IMF or no IMF. However, the 'reverse linkage' overtones do tend to be interpreted as an IMF conspiracy against non-agreeing countries and can poison Fund-country relations and negotiations; to that extent they are a serious negotiating blunder.

A more serious tactical or even strategic mistake relates to the relative roles of the Fund and Bank in SSA adjustment programmes. The SSA adjustment programmes:

a. require micro and macro real economy structural, institutional policy and preformance expertise to be effective;

b. are in a much more rigid and fragmented context than applies in most

Latin American, Asian or South European economies;

c. need to be over a longer time period because of the limits to rapid response arising from the first two characteristics, and

d. for at least the poor and many of the lower middle income economies require both larger bridging/arrears clearing/capacity utilisation support finance and a higher proportion of concessional finance than is possible within Fund parameters.

All of these are problems with which the Bank is far better able to grapple than the Fund - quite apart from the fact that its working relations with most SSA governments are both closer and less tense than those with the Fund. Therefore in respect to negotiating SSA stabilisation and adjustment programmes Bank not Fund leadership (or at least genuinely joint programme negotiation and missions) would appear appropriate.

This might also overcome another mixed problem of appearances and realities. The Fund gives the impression that it imposes programmes and that the formal drafting of a "letter of intent" by a country is done at the Fund's figurative or literal dictation from a pre-written Fund draft, at least in so far as the key commitments and trigger clauses go. This may have its uses in making the Fund a lightning rod for internal objections to the policy package (and is often exploited in this way domestically) but it has a very high cost. As G. K. Helleiner has succinctly observed (1984c):

> Effective stabilisation and adjustment programmes require that the governments concerned regard them as "their own." Imposed programmes do not hold.

The Bank - whatever its tendencies to view itself as a band of Platonic Guardians and its implication that it will concentrate its SSA resources on a a minority of economies chosen on the Bank's evaluation of their policies - is aware of the need to negotiate and to convince so that governments believe in and feel committed to the programmes they adopt (Bank, 1984a) in a way the Fund apparently is not.

Vulnerable Groups - Obstacles to Efficiency or Human Victims?

The IMF has been criticised frequently - and sometimes brutally - for ignoring the impact of its policy prescriptions (and of macro monetary market price oriented approaches in general) on poor and vulnerable groups (Green, 1984b). Its response (e.g. de Laroisiere, 1984) is two fold:

1. the cost of adjustment is being confused with the costs and gains of Fund programmes;

2. countries are free to choose whatever specific cuts in public expenditure and other specific policies to protect vulnerable groups they prefer so long as they do have a package of adjustment measures and of macro targets which is plausible and operational. Thus if the vulnerable and poor are shoved aside it is the national governments' fault not the IMF's.

There is something in each of these points. In SSA vulnerable groups include peasants (and pastoralists) on sub-marginal holdings (either as to size or ecology), a substantial proportion of other small peasants (whose ability to produce is low), natural disaster victims, refugees, minimum wage and informal sector employees/self employed and - within households which are below or just above the poverty or vulnerability line - women and children (see Jolly and Cornia 1984 and particular chapter by Singer and Green). Because these add up to well over 50% of the total human beings in SSA - by some definitions in some states one could reach 90% - it is impracticable to place all of the costs of adjustment on the less vulnerable and less poor.

Similarly it is true to say that the IMF does not directly call for policy changes and resource reallocations designed to hit the poor and vulnerable particularly hard and that many SSA governments' do not appear to show much, if any, "revealed preference" toward shielding or assisting such groups of people, IMF or no IMF.

However, this answer is at best incomplete and at worst grossly misleading:

a. the IMF - and especially IMF missions - are not sensitive to the poor and vulnerable, indeed they are more often than not *de facto*

'invisible' to them;

b. purely production oriented strategies are likely to exclude many of the poor and vulnerable (as underlined in World Bank, 1984a) unless creative priority attention is given to developing low cost basic service and income enhancement policies biased toward them (ibid);

c. reducing real wages across the board (a recurrent IMF requirement, in fact if not always explicitly) does hit poor minimum wage and informal sector members hard while grower price increases - while they may assist some vulnerable groups in some countries - do little for the poorest rural groups and worsen the position of poor urban residents;

d. cutting government recurrent spending (especially if pure administration, military expenditure and national celebrations are not specifically cited as priority areas for cuts) does tend to result in disproportionate cuts in education, health and pure water recurrent spending which in turn has a particularly severe impact on basic level low income urban and rural area provision of these services (cf. UNICEF, 1984);

e. the IMF in practice objects on principle (not simply in the context of overall fiscal policy) to almost all instruments to benefit or protect the poor and vulnerable from food subsidies and massive drought relief (even if in a "food for work" form) programmes through broad access to basic health education and water at nil or low fees to targeted projects to assist specific groups or areas and does not suggest or engage in discussion of what alternative instruments might in a particular context be more "cost efficient."[24]

f. the IMF neither seeks to study the impact of its programmes ex post or ex ante on poor and vulnerable groups itself nor makes use of the expertise of other agencies - e.g. ILO, UNICEF, national governments to do so;

g. poor and vulnerable groups are particularly susceptible to exogenous shocks, close to survival or absolute poverty levels to start and usually with limited capacity to adjust rapidly on their own and

therefore are likely to suffer disproportionately from "front end loading" and "short sharp shock" approaches;

h. those SSA governments which have sought to shelter vulnerable and increase access to basic services and to income generating activities for poor people have, in practice, consistently perceived IMF programme conditions as obstacles (or their commitment to such measures as obstacles to agreeing or sustaining IMF programmes).

To What End? Adequacy and All That

There has been a tendency to merge liquidity and bridging finance requirements with those for development finance or, alternatively formulated, the cyclical/shock current account deficit with the trend/structural. While potentially useful for overall balance of payments management or for calling attention to total external transfer requirements this approach has certain disadvantages:

a. the two deficits are conceptually different;

b. maintaining or trying to maintain the fixed investment levels consistent with 5 to 6% growth and approximate external balance on basic account has worsened capacity utilisation problems;

c. there is a respectable case for IMF - World Bank - bilateral stabilisation funding (drawings, import support, part of rehabilitation and structural adjustment programmes) to be calculated, negotiated and managed with a degree of separation from (as well as coordination with) external resource flows for long term investment;

d. given both the articles of the IMF and the climate of northern opinion at both governmental and public levels the conflation is more likely to reduce than to increase total resource inflows (cf. Helleiner, 1984c) and to perpetuate the combination of excessive finance for new projects which objectively cannot be utilized or maintained except by reducing already inadequate maintenance and

utilisation of existing capacity with very severe underprovision of maintenance and capacity utilisation import support finance to bridge adjustments in trade and production/resource use structures.

Therefore, this critique of adequacy relates to liguidity (low conditionality IMF and analagous Bank or bilateral facilities) and bridging finance (high conditionality facilities). The chief purposes of such finance - both in terms of the IMF's Articles and of most versions of economic logic - is to offset the impact of exogenous shocks which are likely to be self reversing or rapidly reversible and to provide time in which adjustment can be made to permanent negative changes in the external economic environment and/or in which the consequences of erroneous domestic policy decisons can be reversed.[25] That is, in the first type of case liquidity/bridging finance would finance holding on until the negative shock reversed itself while in the second it would be tapered down in phase with some reasonable period for achieving adjustment (cf. Williamson, 1983, p 657-8).

Cumulative terms of trade deterioration for low income countries other than India or China probably totalled $12,500 million over 1979-83 measured against a 1979 base or $27,500 million over 1978-82 measured against a 1977 base (rough estimate from IMF 1984a, cf. Helleiner 1984c). Net IMF credit was $3,700 million over 1979-83 (IMF, 1984a, p 204) or barely 30% of the lower and 12.5% of the higher estimate of the cost of terms of trade deterioration above.

Adding on the impact of slower volume growth in world trade, interest rate increases and natural disasters would increase the external shock losses substantially. Adding on Stabex and bilateral donor increases in balance of payments (operating and import support) assistance would increase moderately the adjustment finance supplied. As three quarters of the IMF credits were high conditionality it is very difficult to estimate the quasi automatic (liquidity) element of adjustmentfinance at over 10% of the post 1978 or 5% of the post 1977 shock impact (cf. Helleiner, 1984c). Liquidity and high conditionality adjustment finance together can hardly have exceeded 20% and 10% respectively.

The absolute sums for SSA would be different - some low income countries are not in SSA and a number of SSA economies are lower, middle income, usually

with the stress on lower - but the proportion of adjustment finance to shocks would not be very different.

Thus there is a very overall strong case that IMF and other adjustment finance has been inadequate in volume. Country experience seems to bear this out - even the showpiece Bank-Fund-Bilateral country programmes such as Sudan, Uganda and Ghana appear to be severely constrained to date and their medium term viability threatened by inadequate bridging finance.

There is also a quality problem. Conditional finance is not liquidity because it is not available automatically, rapidly and at a predictable date (especially given the actual relaxed time frame within which the IMF conducts high conditionality negotiations if there is any significant divergence between its proposed package and what the would be borrower is willing to accept or counterproposes.)[26] Especially for finance to avoid unnecessary adjustment to shocks likely to be reversed and to give time to start an adjustment programme in respect to other shocks and domestic policy mistakes, liquidity is vital.

Over 1979-84 the situation in respect to IMF access in relation to needs has worsened for SSA both quantitatively and qualitatively. Quota increases have been virtually cross cancelled by reductions in ceiling ratios of drawings to quotas. The CFF has not been expanded or linked to interim maintenance of real import capacity rather than trend nominal export receipts, instead it has been shifted from low to high conditionality. No new low conditionality facilities analagous to the Trust Fund, interest subsdidy and oil facilities have been established. The retreat from the EFF has shortened horizons as to assured financing for adjustments and reduced repayment periods forcing more rapid adjustment. All of these would appear to be changes in the wrong direction.

The IMF as an institution might well agree that it needed more finance to extend larger and perhaps longer term adjustment facilities (albeit not on the need for a higher proportion of low conditionality ones) and argue that it was constrained by its dominant industrial economies' positions. Two comments pertain to this:

1. the IMF has not been at all forceful in pressing the case for much

larger expansion of its resources than has taken place let alone in respect to differentially improved access for poor and vulnerable countries;

2. it has not for low and lower middle income countries sought to use its "seal of approval" to provide additional adjustment finance in a manner analagous to its mobilizing (virtually coercing) additional commercial bank finance to augment major upper middle income borrower programmes.

The latter point is of considerable importance. If IMF resources are inadequate to finance adjustment and cannot readily be augmented, the logical first response by the IMF is not to cut down adjustment programme size or timing but to seek to mobilize World Bank (SAL, sectoral) and bilateral (operating and maintenance import support, debt rescheduling) finance to make the resources fit the programme. With the very partial (both in terms of effort, promptness and overall adequacay of funding secured) exceptions of Uganda, Sudan and Ghana it does not appear to have done so.

Global Good Housekeeping or Fallacy of Composition?

One criticism of the IMF that has not surfaced frequently in the SSA context but has elsewhere (e.g. Commonwealth, 1983) is that it is following a cyclical rather than a counter cyclical pattern and that its national adjustment programmes - however appropriate when viewed one at a time - when aggregated are likely to depress global growth of international trade and production and to raise levels of unemployment and the advance of the "new protectionism".

This is a particularly telling criticism, if valid, as it would suggest that the IMF has forgotten what it was set up to do: prevent lack of liquidity leading to predatory trade policies, cumulative competitive devaluations, growing physical barriers to trade and continued high levels of capacity underutilisation and of unemployment, i.e. what its founders at Bretton Woods saw as the institutional and policy patterns of the 1929 international financial collapse and 1930's depression. Clearly the IMF has not been seeking to achieve such a result, but the record does suggest a surprising degree of myopia and fallacy of composition for a global organisation.

Globally a majority of the world's economies have historically low levels of capacity utilisation and growth of GDP combined with historically high levels of unemployment and Current Discount Deficits. Less uniformly they also have inflation rates which are low relative to the 1960's and early 1970's. This not incidentally, is not a global sketch which corresponds to the IMF model which sees overheating by excessive increases in resource use as the key causal factor of the continuation of their problems.[27]

The IMF prescription in general is for restored international balance and growth by raising exports and reducing imports. Its standard time frame for such adjustment has been short and over 1981-82 it actually reduced the real level of net drawings - especially to poor and lower middle income countries. While possible for any one country, it is not possible for all together - one economy's exports are other economies' imports and attempts by a large number to swing their trade balances rapidly (especially in the context of low capacity utilisation and high unemployment) create a tendency toward cumulative, cross cancelling devaluations (whose total global impact is inflationary by definition) and toward the extension of the "new protectionism's" non-tariff barriers to international trade.

The implications for SSA are clear - even if they do not form part of IMF-SSA government negotiations - and also clearly negative:

a. slowing global recovery continues the relative stagnant price and volume outlook for SSA traditional exports;

b. continued high capacity underutilisation and unemployment creates a situation unfavourably (in both market and intervention respects) to diversifying exports by extension of pre-export processing or addition of a substantial manufactured goods component in countries in which it would be justifiable on technical and normal comparative advantage grounds (e.g. hides and skins and cotton exporters in respect to pre-export processing, Zimbabwe in respect to manufactures);

c. continued slow growth (and pressure to reduce government borrowing requirements) in the industrial economies reduces the probable flows of net external finance on concessionary terms while continued economic malaise in SSA reduces availability and worsens terms of commercial finance (as well as making it more frequently too expensive or short term to use because both GDP and export earnings growth are so low).[28]

Tanzania as Example

Tanzania is not - like any other country - a "typical" case. However it has several features which are relevant to assessing the impact (positive or negative) of IMF perceptions and programmes in SSA from 1979 onward:

1. It is a low income economy but not a minute one (about 22 million people, $4,500 million GDP as of 1984);

2. It is highly vulnerable to - and has been severely affected by external shocks;

3. The political economic development strategy pursued since 1967 (and less coherently since 1961) has stressed basic needs, vulnerable group protection, reduction of external dependence, managed markets (as opposed either to "free" markets or material balances planning) moderate (5 to 6% a year) growth, rural bias, fiscal and monetary conservatism and mass participation in decision taking and accountability and a decentralised, phased transition to socialism. - a package in many respects likely to lead to different perspectives than those of the IMF;

4. through 1978 the strategy was reasonably successful in respect to most goals but from 1979 on has been remarkably unsuccessful in respect to several - notably growth, external dependence, balanced recurrent budgets and low inflation;

5. the 1974-76 adjustment strategy - which made use of substantial IMF and World Bank import support resources - was broadly successful

(except in respect to restoring an export growth - earned import capacity - dynamic except in the context of of the 1976-77 beverage boom) but attempts to replicate it over 1979-81 were apparently less coherently formulated, failed to secure comparable IMF and Bank backing and were consistently overtaken by the worsening international and weather and, largely consequential, domestic economic environment;

6. negotiations with the IMF - and to a lesser degree the World Bank until 1983/4 - have not simply failed to reach agreements that hold up but have arguably had consequences for domestic policy debate which have delayed the pace of adjustment which would otherwise have taken place;

7. the pressure of the political economic crises has both led to a deterioration in average quality of domestic analysis and management but also forced a shortening of time horizons - for some key areas including fuel and foreign exchange literally week to week juggling - and created increased uncertainties and reduced ability to control results of actions attempted.

8. whatever the causes of the present economic malaise - or the chances of "bottoming out" by purely national adjustment actions - no serious stabilisation, rehabilitation and adjustment programme can be launched without an initial partial restoration of import capacity (before exports can be raised significantly).

Two other characteristics admittedly do somewhat tell against Tanzania's use as a case study:

1. Tanzanian economic data - while of a broader range than for many SSA economies - have deteriorated in quality radically since the late 1970's and in respect to GDP and food production are now clearly so shaky (and inconsistent) as to hamper and confuse both analysis and resolution of disagreed issues;

2. a variety of institutions, viewpoints and individuals - especially non-Tanzanian ones - have at various times seen Tanzania as a symbol

or laboratory case study of what they were committed to or against (sometimes of both at different times) with very imperfect correlation either with objective reality in Tanzania or with (varying) Tanzanian perceptions of what they were seeking to achieve;

3. at no time since 1974-75 has a durable IMF programme been achieved.

The first problem is hardly unique to Tanzania - the data deficiencies may be more generally known because the data has been analysed more rather than because it is worse than average SSA data. The second can only be noted and, hopefully, guarded against in presentations and interpretations. Long gaps in IMF-state relations in SSA - even in the presence of a demonstrable need for adjustment - are by no means uncommon even if the Tanzania case is unusual in duration and has a, perhaps uniquely, high public profile. The last point cuts two ways as it also means that more information is accessible on IMF-Tanzania relations than on almost any other SSA case.

Tanzania - IMF Relations: A Sketch

Until 1974 Tanzania's relations with the IMF were reasonably mutually satisfactory but not particularly intense. Fund missions to members not seeking to draw tend to have limited leverage and discussions - even on disagreed points of analysis or policy - moderately relaxed. Tanzania's 1970-71 external imbalance mini-crisis was resolved by domestic action including limited use of SDR's but no Fund drawings (see Rwegasira, Green, Van Arkadie, 1981).

Over 1974-75 Tanzania made substantial use of Fund resources - the balance of its SDR's, oil and CFF facilities, gold and first credit tranche. All were low conditionality. The Fund fairly clearly was sceptical in respect to some aspects of the 1974-76 adjustment strategy. This included substantial domestic price adjustments, limited devaluation, restraint on recurrent spending, protection of minimum wage earner and peasant real incomes and access to services, maintenance of investment, increases in exports and use of bridging finance to ride out the short term impact and allow time for supply enhancement adjustment to restore external and internal balance (see *ibid*). However, because the strategy was at least partially orthodox, the Fund

accepted that short term shocks did require fairly full initial offsetting finance and the drawings used were low conditionality no serious problems of negotiation arose.

A 1975 Second Credit Tranche Standby did not become effective because the government domestic bank borrowing sub-ceiling was breached (probably for seasonal pattern reasons). (Bank of Tanzania, 1984 p. 225). However, as Tanzania's external balance was rapidly improving by late 1975 and earned import capacity, imports and reserves rose sharply in 1976 the Standby would probably not have been fully drawn in any event. Thus the breakdown did not lead either to negotiations to resolve disagreements or to any substantial strain on IMF/Tanzania relationships and, indeed, substantial low conditionality (CFF and balance of First Credit Tranche) drawings were made in 1976 and 1977.[30]

In 1978 the current account deficit exploded - first as a result of ill considered import liberalisation, second from terms of trade deterioration and, third from the war costs following the Amin regime's invasion. Tanzania approached the IMF at the beginning of 1979 reaching a First Credit Tranche and CFF interim agreement (including a 15% devaluation) in March. However, negotiations toward a longer term, Higher Credit Tranche agreement first dragged on and then collapsed in open acrimony.

Over April - August 1980 an agreement was reached after hard and intensive but reasonably amicable negotiations. Intended to be the first tranche of a three year EFF it collapsed after the CFF and first quarterly drawing. Renewed negotiations in 1981, 1982, 1983 and 1984 produced no agreement and, while the open animosity of 1979 was avoided, increasing doubts as to the IMF's seriousness of desire to reach an acceptable agreement and as to the practicable possibility of negotiating one became increasingly widespread among Tanzanian analysts and decision takers.

Ideological Deadlock?

Tanzania's basic disagreements with the IMF - especially in negotiations proper - have not been ideological if by that is meant "IMF capitalism versus Tanzania transition to socialism". Debates on appropriate types, degrees and

limitations on liberalisation, market management, state economic intervention and public enterprise sector economic activity have been intense and frequent but have not been major causes in the actual deadlocks. The Fund has not suggested elimination or across the board reduction of the public enterprise sector.[31] Ideological glosses - often very loosely connected to the actual content of negotiations or actual alternatives for feasible adjustment - by persons associated with both sides have not helped the atmosphere surrounding negotiations but have been secondary irritants, causes for delay of rationalisations of breakdowns not causes of deadlocks.

The linked issues of absolute poverty eradication and of income distribution have certainly been ones on which Tanzania and the Fund have not seen eye to eye. However, because Tanzania's rural bias and the Fund's desire to raise the real price of exportables ran in parallel while the Fund missions never deemed it prudent to put forward formally their evident belief that salaries should be raised relative to wages and Tanzanian wage increases in 1980, 1981 and 1984 (there were none in 1979, 1982 or 1983) at most offset the previous years inflation, the actual income distribution debates have turned largely on agreeing prudent level of export crop price increases.

Similarly since 1979 the Fund missions have avoided targeting health, education and water specifically as areas for expenditure cuts. They have on the one hand reduced stress on recurrent spending cuts in respect to public services (where real spending has fallen steadily) and on the other concentrated on more effective attainment of Tanzanian targeted reductions in post-Amin defence spending and on reversing the rise in producer and - to a much lesser extent - consumer subsidies as a proportion of expenditure. Thus in fact income distribution and basic services have not at least since 1979, surfaced in an overtly ideological way.

Mismatched Model

Tanzania's post 1978 economic problems clearly do not flow from an increase in real resource use - with the brief exception of late 1978/early 1979 when external invasion did lead to resultant increases in military spending faster than to reductions in resource use elsewhere in the economy. They flow from external shocks: a 50% 1977-81 fall in the terms of trade with negligible

subsequent recovery,[32] the 1978-82 war and Uganda support costs consequential on Amin's 1978 invasion, drought (1975-78 were all average or above crop years; 1979, 1980, 1982, 1984 were severely weather affected with 1981 and 1983 at best marginally below average), sluggish growth of export demand and the impact of negative international price signals on supply, the new investment requirements consequential on the 1977 breakup of the East African Community to replace previously used Kenya and Uganda based common services or specialised corporation units.

These led to draconic import cuts - 50% odd in real terms between 1979-80 and 1982-83 (abstracting the unsustainably high 1978 and military equipment biased first half 1979 levels as well as the continued decline over 1983-84).[33] These in turn led to a 50% fall in manufactured goods output (reducing real government revenue by at least 25% from what it would otherwise have been and starving the agricultural sector of incentive goods), generalised inadequacy of maintenance, radical deterioration of transport and agricultural processing capacity (flowing from fuel and other operating input shortages as well as inadequate maintenance). These in turn led to a government bank borrowing requirement averaging 25-30% of recurrent revenue largely to cover recurrent account deficits (which had been consistently in small to moderate surplus to 1978-79 see bank of Tanzania, 1984 Chapter 15) and to 25-30% annual Cost of Living increases largely matched on the price side for peasant producers but leading to a fall in real wages of over 50% from 1978 through 1984 and a larger one for real salaries. Even these levels of import cuts did not avoid piling up $500 million odd of government debt, supplier credit, commercial trade and invisibles arrears by the end of 1983 (versus nil prior to late 1978).

Tanzania was imprudent in 1977-78. It liberalised imports dramatically in mid 1977 (following more cautious decompression over late 1975-76) and planned a large 1977-78 trade deficit precisely when the beverage boom was (and was projected by Tanzania) breaking. In fairness it did so in response to repeated and vociferous Fund and Bank advice. Its 1977-78 through 1979-80 recurrent Budgets were fiscally reckless (unlike those before or since).[34] Over 1978-80 it used supplier credit heavily to postpone investment goods import cuts at the price of mortgaging future export earnings (or accumulating arrears) if there was not a rapid export/external resource flow recovery. From late 1978 through late 1979 policy making attention was diverted from the

economy by the war and subsequently was, on frequent occasions, diverted from strategic planning by day to day crisis containment demands.

However, these factors were much smaller in their impact than the external shocks, and while reducing the efficiency of adjustment did not prevent massive real import or real government spending (recurrent and capital account) cuts. Further, in part they were consequential on the supply losses engendered by external shocks. It is difficult - in retrospect as at the time - to see how macro monetary prestidigitation could have been a sufficient condition for stabilisation or any strategy not including (and backed by the external resources to achieve) supply restoration beginning with production input and maintenance import supply restoration could have provided a way toward adjustment and recovery.

IMF Rigidity and Tanzanian Reactions

Largely because of the near total divergence of Fund mission and Tanzanian analysis of underlying economic causes, mechanisms and strategic emphases required, negotiations have in practice turned on particular measures. Three have generated the most controversy - devaluation, grower prices and food subsidies.

Food price subsidies have never been seen as a permanent policy instrument in Tanzania (except perhaps by some decision takers over 1982-83 in reaction against IMF calls for instant abolition). Their use in 1973-74 to bridge adjustments of grower and retail prices to world grain price leaps was overtly interim, was ended and was followed by clawback of the interim subsidies by higher than breakeven prices. Over 1977-79 they reemerged covertly because of appalling accounting and supervision breakdowns in respect to grain marketing.[35] In 1980 they were identified, eliminated for rice and wheat and - as an interim measure - consolidated on one product, maize meal (sembe) the most widely consumed staple. Initial intention to phase them out by 1983 were overtaken by reaction to IMF calls for instant abolition, sharply increased grower prices and the freezing of the minimum wage between July 1981 and June 1984.

However, the total subsidy borne by the recurrent budget was 2 to 3% of total

spending (another 1 to 2% came from a cross subsidy from higher sugar prices) which raises serious doubt as to why the IMF chose to press the issue which was really one of phasing when its overall fiscal implications were minimal. In 1984 Tanzania restructured grain marketing and eliminated all food subsidies (as well as all grower input subsidies) with parallel 40% grower price increases for maize, 160% retail price increases for maizemeal and 35% minimum wage increases.

Grower price arguments have been on practicabilities and responses not principles. While erratic, grower food pricing for peasant crops (affecting in principle under one half and in practice perhaps a quarter of marketed food) has since 1974 maintained their real value. Since 1981 a similar policy has prevailed in respect to most industrial/export crops produced by peasants. In 1983 (for late 1983-1984 harvests) and 1984 (for 1984-85) 40% increases (5-10% above projected inflation) have been the norm.

Tanzania has argued that:

a. without more import capacity to provide more inputs and incentive goods and more transport and processing capacity higher nominal increases could not be real for peasants either on capacity or incentive side and would simply fuel inflation;

b. with grower prices on average near 1977 real levels and real minimum wages down 60% so that middle and lower middle peasant household consuming capacity was well above that of the minimum wage further urban to rural redistribution was economically dubious as well as humanly, socially and - more problematically - politically impracticable and undesireable (ie if peasants respond to economic incentives/disincentives so do wage and salary earners).[36]

In fact the 1983 and 1984 increases (paralleled by 0% and 30-35% minimum wage increases) are already arguably beyond the limits of prudence on both counts. The IMF has sought 25 to 50% real increases at one go which would appear to be physically impossible and has sought increases after crops are planted, fertilised etc. which could hardly have any significant output effect but would have serious government or enterprise deficit and inflationary impact.[37]

Devaluation is more complex. Through 1978 Tanzania had followed a policy of regular review of exchange rates with half a dozen 1971-1976 parity changes (all but one downward) and three changes in the currency or basket to which it was pegged. Because over 1961-1978 Tanzania had below world, and only moderately above OECD, inflation rates these moderate scattered adjustments prevented serious overvaluation up to 1980 at least in the opinion of the World Bank (World Bank 1983, price distortion table). However, the basic Tanzanian rationale turned on domestic concerns - inflation management and avoiding cuts in export crop grower prices.

In early 1979 at a time at which inflation was rising, terms of trade falling and war costs unknown (Amin was still undefeated) Tanzania and the Fund missed the opportunity (proposed by some participants on each side) to go to six monthly small adjustments (25% over 18-30 months was mentioned) to avoid buildup of overvaluation. A single 15% evaluation was made.

Thereafter the IMF steadily proposed 60% devaluations through mid 1984 - apparently 20-30% in late 1984 following the 30% June devaluation - as preconditions with growing, but secondary, emphasis on a formula system for subsequent adjustments to offset excess Tanzanian inflation. The results were a unmitigated disaster:

a. the 1980 agreement called for a study on exchange rates (carried out in two parallel halves by the Fund and Tanzania) but did not include (neither side proposed) any mechanism for small, moderately frequent, managerial (ie not cabinet level political) adjustments;

b. because the Fund was calling for a massive one shot devaluation the Tanzania study concentrated on demonstrating the weakness of that approach and paid little attention to alternative approaches to adjustment and especially to creeping overvaluation caused by the combination of a dollar dominated peg and high inflation;[38]

c. the reaction to 60% devaluation demands in Tanzania was to make the topic of devaluation a symbolic test of right or wrong (for the Fund and in Tanzania) paralysing Tanzanian response to the problem of creeping overvaluation (which reached 50 - 75% by mid 1983[39]) until

1983. The reductionism of the positions is only slightly overstated by characterising them as "massive devaluation now is good for your soul"; and "no devaluation now or ever";

d. the advocates of phased reversal of overvaluation in Tanzania were thus than buffeted from two sides - the Fund and the hard line reaction to it. As a result a 10% adjustment to reverse appreciation caused by the dollar's rise was not agreed until 1982 (15% was proposed in mid 1981); the 15% 1983 and 30% 1984 devaluations were delayed and bunched versions of desired packages of smaller, more frequent measures; serious discussion of a means to depoliticise small, frequent changes to avoid a recurrence of creeping overvaluation did not begin until late 1984.

By late 1984 Tanzania was near return to its historic position - adjusting to avert real grower price cuts (and to avoid Treasury burdens from subsidising exports) and to avoid serious buildup of comparative inflation rate caused overvaluation . Had there never been any IMF proposals it would probably have reached that position by the end of 1981 and the mid 1984 exchange rate would probably have been Sh 20-22 to the USA$ (vs a Sh 23-25 rate for full maintenance of 1979 relativities and an actual rate of 17) with the Treasury and Bank of Tanzania carrying out two to four small adjustments annually to offset inflation.

In each of these cases. IMF rigidity has had a very high price. It has misdirected Tanzanian energy from phased solutions - which at least on the exchange rate some Fund personnel have decried as worse than useless - to arguing against massive one off ones and created emotional political symbols out of what had been largely economic managerial questions. Thereby it has slowed change in directions both the Fund and (even if for different reasons and on a phased basis) many Tanzanian analysts and economic decision takers wanted allowing imbalances to worsen and making changes when they happened too lumpy and too late minimising their real economy incentive impact and maximising their inflationary and human hardship potential.

How Equally Treated?

At the formal level Tanzania has been treated evenly by the Fund. Through 1976 it was a moderately large (relative to quota) and successful user of Fund resources. The 1980 programme - seen as the first tranche of an EFF agreement - was not small relative to quota.

However, Tanzania is a clear case of formal equality in access to IMF resources meaning the exact opposite in terms of access to liquidity and bridging finance relative to adjustment requirements:

a. alternative sources of liquidity have been limited - commercial bank credit has never been available on a substantial scale nor could Tanzania afford to use it; World Bank structural credit has not been available - since 1980 precisely because of the lack of an IMF agreement; while bilateral balance of payments support finance has been sought and obtained it has, by itself, been inadequate and increasingly constrained by lack of an IMF agreement;

b. therefore, Tanzania resorted (unwisely) to use of supplier credit and (faute de mieux) to buildup of commercial arrears because it could secure no less unsatisfactory bridging finance;

c. this need to do so resulting from the size of the external shocks - probably of the order of $2,500 - $3,000 million over late 1978-1984 and the inability to respond rapidly exacerbated by the failure to secure bridging finance and the resultant growth of capacity use and maintenance 'deferral' real side barriers to adjustment.

In relation to external shocks Tanzania's access to liquidity was perhaps 1-2% and to bridging finance 15-20%. This can hardly be seen as effective equal access to liquidity/bridging finance to ride out reversible and adjust to permanent effects of shocks.

Targets For Stabilisation or Collapse?

In 1979 no fiscal targets could have been realistic - in the middle of a war

macro monetary forecasts are unlikely to have much precision. In 1980 the "trigger clauses" in retrospect can be seen to have guaranteed either instant or medium term collapse of the programme:[40]

a. the actual pipeline of import payments falling due was slightly underestimated by the Tanzania side and then 'bargained' down by the Fund so that the first two quarterly arrears targets could not have been met had all the Fund drawings been used for that purpose alone;

b. the overall domestic credit and specific government bank borrowing ceilings were 'bargained' down from the Treasury's (as it happened realistic) view of what the actual seasonal pattern was again virtually guaranteeing a second quarter collapse after a single quarter of prestidigitation on receipt and payment timings;

c. the whole programme assumed (and indeed explicitly said it required) a Bank SAL and additional bilateral balance of payments support to survive but the Fund did not take part in any attempt to secure these, Tanzania's detailed submissions were not ready until two months after the formal start of the programme and its SAL proposals never received any formal response at all so that by its own calculations the programme was doomed before the first - and only - drawings were approved two to three months after the dates the programme and "trigger clauses" covered;

d. no leeway existed in the targets for any adverse terms of trade shifts (in the event substantial), for lags in Bank/bilateral receipts or for delayed output response to price incentives.

In the event, the programme lasted one quarter. 1981 Treasury calculations[41] suggest that had it survived and a SAL loan been received and disbursed promptly the year and credit ceilings and - less clearly - arrears levels could have been met consistent with sustaining the manufacturing output/general improved maintenance based real recovery allowed by partially restored imports in the second half of 1980 and snuffed out by first half 1981 import cuts forced by its collapse.

Since then negotiations have never actually reached a target setting phase.

However, their general tone suggests that the IMF still:

a. grossly underestimates the time lag from IMF programme approval to complementary Bank and bilateral funding to actual arrival of imports to their use in production to actual availability as inputs and incentives to restored real government revenue and enhanced agricultural output and exports;

b. as well as still failing to accept the reality of a distinct seasonal pattern in bank credit with the largest increases from June through December for enterprises and July through mid March for the government;

c. and is not inclined to allow leeway - or ranges or adjustment formula - for adverse exogenous shocks or lags in resource inflows or real economy response outside Tanzania's control.

This would suggest that the danger of 'bargaining' on what should be genuinely non-partisan estimates and of premature collapse of potentially successful programmes remains high.

Expertise, Tact, Timing: .Some Deficiencies

The record of Fund and Tanzanian projections over 1979-84 does not suggest great expertise (or luck) on either side, but does suggest less on the Funds. Repeated failure to grasp (despite explanation) how certain data were compiled (eg cost of living by random purchase not official prices even where these existed, agriculture from overall physical production estimates with both methods of converting to current prices and of estimating proportion sold much shakier than the physical data) and lack of coherent understanding of - or apparent concern with real sectoral and micro issues hardly inspired confidence in their empirical or analytical expertise. The 1980 first and second quarter trigger adjustments that were the immediate cause of collapse were made against Tanzanian technical estimation which threw up figures much nearer actual results.

Similarly the Fund has consistently failed to offer proposals on export

strategy or policy (non-existent in Tanzania except in the vaguest form or in isolated areas until 1981 and still weak in articulation and effectiveness) beyond generalised higher price prescriptions. This presumably flows from deemphasis of real and sub-macro issues, but is a poor service to stabilisation in the Tanzania context. Indeed in 1984 the Fund is believed to have advocated reintroducing export taxes on peasant crops which might be considered an odd way to increase grower incentives. In respect to agricultural marketing costs the Fund has (quite correctly) taken an interest but again at a macro costing and macro institutional level providing little insight or assistance to Tanzanians wishing to achieve cost control (over both the public and private sub-sectors) in this sector.

The Fund's recent past negotiating tactics - except in early 1979 and in 1980 - have been characterised by consistent lack of tact or perception of the probable consequences of its absence. Missions have ranged in discussion and commentary far beyond the issues and policies under negotiation - often on the basis of very little knowledge of Tanzania. They have appeared to deny the reality of major cuts in resource use - including both real government spending on both recurrent and capital account - and of a broadly positive use of agricultural policy to sustain peasant incentives and have been unwilling to discuss questions of phasing and flexibility seriously, brushing them aside as attempts to avoid adjustment. This did nothing to create a viable working relationship between the Fund and Tanzania's Treasury/Central Bank team and a good deal to mobilise domestic opposition to any Treasury/Central Bank adjustment proposals which included any elements seeming similar to IMF proposals.

The 1979 and 1983 Mission Meetings with the President were peculiarly disastrous. The first - probably unintentionally - presented a still negotiable set of proposals as if they were 'take it or leave it' and the second chose to combine what appeared to be a broad critique in principle of socialism and self reliance with an apparent assertion that Tanzania had failed to adjust at all. In neither case should the meeting have been held - in 1979 the apparent error was a Tanzanian attempt to convince the President more energetic adjustment was needed; in 1983 it was apparently proposed by those who believed no agreement was possible. In both cases the IMF's minatory, headmasterish tone and the President's predictable negative reaction to it led to recrimination and delay.

The fact that Tanzania is responsive (probably over responsive) to rationally argued suggestions on most policy and operational topics, but very resistant to orders to make changes, especially when these seem to (or do) include basic political economic and value changes does not seem to be grasped by the Fund. In Tanzania an imposed programme (or one seen as externally imposed), even if formally adopted, cannot be enforced because nobody will feel committed to, and many will be committed against, it.

The Treasury understands this fact quite well. Unfortunately its attempts to build its own adjustment packages (after consultation, albeit not agreement with the Fund) and to launch them in the context of the Budget and accompanying measures has apparently been viewed by the Fund as wilful hostility. The individual who asked in 1984 how Tanzania dared adjust the exchange rate and prices without prior approval is an extreme case, but the undercurrent of objecting to self decided austerity and stabilisation measures as treading on Fund territory has been more general.

A final technical or negotiating problem is either a lack of any sense of urgency by the Fund or a shortage of personnel for negotiating missions. Tanzania cannot readily introduce packages of fiscal and macro-economic changes except in the context of the annual economic policy review culminating in the Budget. Nor - given the lag in any event from programme approval to real economy impact - can it offer much hope of significant real improvements until the last quarter of the first programme year. Further projections made for a year including programme inflows need total recosting (not just sliding forward) if agreement cannot be reached within one to three months of the start of the period they cover.

The Fund's negotiating time table simply has not squared with these realities. In the most successful and quickest case about seven months elapsed from initial negotiations to first drawing. The June 1984 proposals - recast in October - had still not been the subject of full negotiations by a Fund mission empowered to discuss drawings as such by November 1984 while the Fund as of late 1984 appeared to believe February/March 1985 was the earliest possible date for programme effectiveness. While probably unfair both this record and some mission members' side comments (perhaps wrongly interpreted) have reinforced and widened the acceptance of suspicions its tactics are

designed to 'starve' Tanzania into 'capitulation'.

Vulnerable Groups, Basic Needs, Participation and Stabilisation

Commitment to lesser inequality (among individuals and urban/rural), protecting victims of natural disasters, and achieving universal access to basic services (education, health, water) are central to Tanzanian politics and political economy (Bank of Tanzania, 1984, Chapters 2, 3, 4, 19). They have been pursued consistently - if not always effectively - and backed by substantial resource allocations. Broadly they correspond to what the World Bank has termed "absolute poverty eradication", the ILO "basic needs" and UNICEF "protecting vulnerable groups" combined in the context of transition to socialism albeit the Tanzanian commitment predates the international agency formulations and their terminology is not widely used in Tanzania.

Most Tanzanian decision takers - and many officials and managers - view any explicit or implicit attack on these commitments as a challenge to the legitimacy of their government and Party. As these elements are central to the present leadership's long term beliefs, actions and popular support they are probably objectively correct that abandoning them would require a change of leadership. It would also go against public opinion. The continued commitment to fairness and to sheltering the poor from economic shocks to the degree possible do explain the continued support for the Party and government - especially in rural areas - despite six years of economic unsuccess. Criticism is certainly common and open - especially in urban areas and among elites, not surprisingly as they have heen harder hit both by the shocks and by the government policies - but political stability based on mass support survives.

How effective these commitments and efforts to implement them have been in the context of falling real resources is problematic. The ILO (1983) and World Bank (1984a, passim) see considerable success and a UNICEF study (Jolly and Cornea, 1984) at least partial. Tanzanians are often more self critical (eg Bank of Tanzania 1984, Chapter 19).

Equally how opposed the IMF is to these Tanzanian commitments is unclear. Certainly it does not take them very seriously and views their introduction

into discussions as at best a diversion from serious macro monetary magnitude debates. This is, at the least, a misperception of Tanzanian realities and constraints.

Since 1979 IMF missions have been careful not to challenge health, education and water expenditure directly and to argue against maizemeal subsidies on the (less than totally accurate) ground that the beneficiaries were not poor people anyhow. However, their persistent animosity to price management, differential import allocation (eg to basic consumer goods manufacturing) and food subsidies as well as occasional references to increasing the proportion of basic service costs covered by users have done nothing to remove the suspicion that they view the poor as somewhat irrelevant to production and therefore dispensable. A charitable interpretation would be that the IMF personnel believe that if macro monetary stability is achieved all else wil be added on to it including "trickle down" to the poor. That in itself is empirically dubious and - in Tanzania - political economically unsaleable. Further the nature of 1979-84 Fund - Tanzania relations has not encouraged most Tanzanians to give the Fund the benefit of the doubt on ambiguities.

Shock Costs vs Liquidity/Bridging Finance Procured

Tanzania's external shock losses over 1978 - 1984 have been of the order of $2,500 - 3,000 million at current account deficit level. They include:

a. $1,500 - 2,000 million terms of trade losses;

b. $500 million import costs of war with Amin and subsequent support of Ugandan governments through 1981;

c. $300 - 500 million lost exports and increased imports from drought (excluding costs of lower food availability);

d. $100 million export quantity loss from sluggish world demand growth and negative incentives to producers from lower world prices;

e. $50 million replacement investment to replicate East African Community/Corporation facilities after its breakup;[42]

f. $25 - 40 million cost of higher world interest rates (on Bank, IMF, supplier credits).

To offset this Tanzania has secured perhaps $25 - 40 million in liquidity (SDRs, Stabex) and $450 - 500 million in World Bank sectoral and bilateral balance of payments support credits and grants additional to ongoing project finance. Net use of IMF resources has not in fact been substantial taking the period as a whole with new drawings and repayments about equal. Thus the liquidity received has been of the order of 1% and bridging finance (medium to high conditionality) 15 to 20% of direct current account external shock impact.

About $500 million of 'adjustment' has taken the form of arrears and perhaps $100 million of supplier credits so that the remaining $1,500 - 2,000 million has been absorbed via a multiplied loss of output - probably at least 25 - 30% at GDP and 70% of manufactured goods levels by 1984 compared with what would have been the case had the shocks not occurred, been reversed or had adequate liquidity/bridging finance been available. This would not have been enough to allow substantial real growth per capita over 1978-84 but would have averted its 25% odd fall. Further had such a stabilisation base existed, it is reasonable to assume that resources and attention would have been available to concentrate on structural adjustment with some real increase in output per capita resulting from 1981 to 1982 onwards.

By 1984 any viable stabilisation - rehabilitation - recovery package for Tanzania needed to be for at least five years and of the order of $1,500 million excluding ($2,000 million including) elimination of arrears. Net IMF finance (subtracting repayment of about $50 million previous drawings outstanding) could hardly exceed $300 to $350 million over 3 years given present quota tied drawing limits. Therefore any stabilisation package would require complementary Bank and bilateral components and any realistic IMF approach would include seeking to mobilise such a package eg:

a. $350 million IMF (including some rollover in years 4 and 5);

b. $500 million World Bank structural and sectoral IDA funding over five years;

c. $750 - 1000 million bilateral production import support grants or soft credits over five years;

d. perhaps $75 -150 million interest and repayment burden reduction by a major rescheduling of 1984 arrears and 1985-1989 payments on principal of government to government loans and export credits to 1990-2000.

Given significant rehabilitation response and additional exports from restructuring such a programme might restore 1979-80 import levels by its fourth or fifth year and support an average annual growth of 5% a year (1.6 to 2% per capita[43]) over the programme, thus clawing back two fifths of the 1978-1984 fall. It cannot, therefore, be said to be particularly grandiose in ambitions.[44]

However, to date no progress has been made toward articulating, much less negotiating, such a package:

a. the IMF is not interested in doing either until/unless it has an agreed programme with Tanzania (ironically using projections of the hypothetical other inflows as part of the data on which "trigger clauses" are set);

b. without the IMF's "seal of approval" the World Bank (unless it alters its SAL policy parameters) cannot conclude a structural adjustment programme and with no clear date for an IMF Standby in sight has been hesitant to begin serious consultation and negotiation;

c. bilateral sources are similarly unwilling to negotiate individually - much less attend a pledging conference analogous to Zimbabwe's Zimcord - until an IMF programme is in place;

d. Paris Club debt rescheduling in practice is possible only with an IMF programme in place (assuming the debtor is an IMF member) and is useful only in tandem with a parallel new funds package;

e. these barriers to immediate action (and the time consumed in repetitive preparation for and engaging in negotiations with the IMF)

have deterred Tanzania from giving adequate attention to articulating a programme to present to the Bank, bilateral sources and, perhaps, the Paris Club as soon as an IMF Standby is negotiated or of holding preliminary discussions on modalities for rapid negotiations toward its effectiveness.

Thus any 1985 Standby runs a high risk of collapsing within six to nine months because the complementary resource inflows used in projecting its targets cannot become effective in time.

A Cautionary Postnote or Prelude

Given the very sharp adjustment measures taken in the 1984-85 Tanzania Budget (many of them imprudent in any context other than continued lack of access to external liquidity and bridging finance and others arguably placing too much weight on price changes in the absence of real resources to allow responses to them - both weaknesses likely to appear as strengths in terms of IMF perception[45]), and the perception of these by certain other international and bilateral development coordination bodies as evidence of a clear commitment to a strong adjustment strategy along broadly satisfactory lines eligible for external financial support, a Tanzania - IMF agreement in 1985 is by no means impossible, albeit far from certain.

Whether it will be satisfactory or durable is even more problematic:

a. even at maximum size it can provide only about a quarter of the liquidity and bridging finance requirements excluding, or under a fifth including, elimination of commercial arrears;

b. no coherent adjustment for prompt conclusion of complementary World Bank (structural adjustment or sectoral) and bilateral (import support) programmes to complete the adjustment support package have been made;

c. therefore, the lag between an IMF programme becoming effective and the arrival of significant physical goods inflows to Tanzania seems likely to be at least nine months (three months from funding to order

to delivery following six months for Bank and bilateral programme design and negotiation);

d. and another three months before the goods produced from them are available, six to twelve months before rehabilitation investment can come to fruition and at least as long before agricultural production can respond to increased inputs transport, processing and incentive goods availability;

e. so that negligible export improvement can be expected until well into the second year of the programme and very limited government real revenue recovery until very late in the first - realities not likely to be seen by the IMF as compatible with rapid adjustment or taken into account in "trigger clause" setting;

f. a problem likely to be aggravated by the IMF's tendency to treat technical estimates (eg of quarterly borrowing and external cash flow patterns) as proper topics for combative negotiation (which may endanger the programme even if year end targets are attainable) and unwillingness to build in any leeway for external shocks or lags in external resource inflows;

g. so that any programme agreed is likely to remain operative only if (as was the case in the first Zambia EFF) very substantial numbers of prompt waivers of quarterly performance criteria and regular upward revision of future ones is agreed by the IMF during the first two Standby's (assuming there is to be a series of three annual agreements not an EFF);

h. that outcome is rendered less likely by the fact that any agreement reached will be despite basic differences in IMF perceptions of the causes, mechanisms and cures of the 1979-84 economic decline. The IMF is still working on a (albeit modified) macro monetary demand control price change fuelled model and Tanzania on a disaggregated, real, supply restoration fuelled one in which macro monetary and fiscal policy is seen as providing a supporting framework and price changes as one of several facilitating instruments. The Tanzania model is relatively similar to the World Bank's current implicit SSA

Notes

1. Reg Green is a professorial fellow at the Institute of Development Studies (Sussex). He was Economic Advisor to the Tanzanian Treasury over 1966-74 and 1980 and has been a consultant to it in respect to international monetary issues over 1964-65, 1979 and 1981-84. He served on the Group of 24's Expert Group on 'Low Income Countries and the International Monetary System', on the 1976-78 and 1983-84 Developing Country Adjustment Studies carried out by UNCTAD for the Group of 24 and on the 'Imported Inflation' study carried out by IDS for the Kuwait Fund. He wishes to emphasise that the views and analysis of this article are his own responsibility and are not necessarily those of the Tanzania or Zimbabwe Treasuries, of UNCTAD, of the Kuwait Fund or of the Group of 24.

2. For a fuller presentation of the case for such an approach see Patel, 1984.

3. For the case for attempting such a systemic change following and building on a more limited set of specific measures see Commonwealth Secretariat, 1983.

4. While much of the Tanzanian material used is verbal or unpublished, none is deemed to be secret by Tanzania. For a detailed description of Tanzania-IMF relations through 1981 see 'Political-Economic Adjustment and IMF Conditionality: Tanzania, 1974-81' by the present author in Williamson 1983.

5. Similar summaries suggesting that most programmes fall significantly short of goals and that results are not uniformly better than pre-programme period performance have been given by IMF officials to African Association of Central Banks meetings.

6. However, the Fund has - at least publicly - made little effort to exert leadership or to create a favourable climate of Treasury/Central Bank/Commercial Bank opinion for such changes.

7. For a fuller account see the present author's "From Deepening Economic Malaise Toward Renewed Development: Notes Toward African Agendas For Action", Journal of Development Planning, Forthcoming.

8. It is quite unreasonable to expect that SSA governments could project industrial economy and global economic performance better than the Fund, Banks and OECD. UNCTAD in fact did so but hardly has the prestige (or readership) for its less palatable forecasts to override those of the 'big three' as a basis for SSA national policy formulation.

9. Commercial bank credit is usually neither available nor affordable on a substantial scale. The possible additional sources are, for bridging finance, World Bank structural adjustment and bilateral

import support programmes and, for liquidity, Stabex.

10. The Fund does demand state action to alter four sets of prices - exchange rates, interest rates, grower prices and subsidised goods. However, it does so as a second best, it clearly sees the return of these prices to market control as the optimal, medium term solution.

11. In respect to clearly socialist economies, the Fund is more pragmatic concentrating on specific queries as to controls, interventions and operating efficiency and proposing changes toward a "socialist market economy" not toward capitalism as such.

12. Arguably the IMF leans harder on governments whose policies it considers unsound if it believes they may well lose an election (or otherwise give place to) an opposition whose views are more in tune with IMF prescriptions and is more concerned with avoiding forcing a government it views as basically sympathetic to its prescriptions into a political box (or coffin). The number of riots, strikes and other social disorders (none of them very good for production or the balance of payments) following attempts to implement IMF agreements cast some doubt on how perceptive it is as to the limits on government actions and public acquiescence.

13. Even in African economies with significant manufacturing capacity and exports - eg Zimbabwe (Kadhari and Green, 1985) - the problems of achieving a significant rise in total exports by raising those of the manufacturing sector are different in kind from those of an industrial economy or a NIC.

14. This appears to apply to coffee, tea, cocoa, tobacco, cotton, sugar, sisal, palm oil, copper and probably tropical timber and hides and skins.

15. The financing requirement (which includes borrowing to finance investment) is not usefully termed a deficit for a government any more than for an enterprise. The recurrent budget deficit is a deficit. Fund use of "deficit" when it actually is speaking of financing requirement is unhelpful for most analytical purposes and for coherent discourse.

16. This is explored at greater length in Dell, Lawrence, Helleiner 1983-84. Because of the higher import content of investment, under conditions of foreign exchange constraint, more investment results in less total GDP.

17. The Bank (at least in 1984a) is not particularly ideological. There is an underlying faith in markets and prices which approaches being ideological but is significantly tempered by pragmatism and realisation of their limitations.

18. e.g. an official who saw IMF draft letters of interest for the Ivory Coast and (then) Upper Volta said only the country names and numbers,

not the text, differed. Given the very major structural differences between the two economies this suggests either remarkable inflexibility or a very high level of macro abstraction from the real economies.

19. The IMF's recent enthusiasm for multiple exchange rates - even for countries such as Tanzania whose trade structures seem unsuitable for them and whose governments do not wish them on fairly orthodox grounds - is a different matter. It is basically a temporary, temporising tactic to split the domestic price (and political) impact by temporarily devaluing less in respect to a limited range of politically sensitive imports and then consolidating at the higher (lower domestic currency value) rate over 6 to 18 months.

20. The point is not that the changes proposed necessarily injure vulnerable groups or poor people, especially if parallel measures to avert this are taken, but that the Fund shows no interest in analysing such impacts or taking such measures.

21. In some cases of extreme tax laxity government revenue increase targets are included but usually in nominal terms.

22. The IMF does, at times waive one or more quarterly criteria but only on a "grace and favour" basis and without any ascertainable standards allowing a country to determine in advance how to act to secure a waiver.

23. Statistics are a major area of post 1979 deterioration in SSA. Admittedly many were never very good but many now look more like telephone numbers than reasoned estimates. eg for one country over the 1970s annual agricultural output growth is shown as 4.9% (and non-food output growth as negative), population growth as 3% odd, food availability as <u>declining</u> about 1% a year (despite low food imports in the base period relative to the final comparison period).

24. In fairness to the Fund it must be admitted that on specifics the Bank (1984a) is also relatively weak and incomplete.

25. Certainly imbalance caused by bad policy leads to a need to adjust but as with irreversible external shock adjustment there is still a case for bridging finance to limit the costs and reduce the period necessary for adjustment.

26. The time frame is so relaxed at times as to give credibility to suggestion interpreting IMF tactics as that increasing pressures will reduce government insistence on serious negotiation. Even from an IMF perspective delay has costs - the economy is still more imbalanced and stabilisation grows more elusive and costly as time passes.

27. The World Bank (1984b) is critical of the IMF on this ground, at least implicitly.

28. This criticism is not applicable to projects with rapid, short term export enhancing or existing import decreasing capacity.

29. See Green, Rwegasira, Van Arkadie, 1981; ILO, 1983; Green in Williamson, 1983; Stewart, 1984, Bank of Tanzania, 1984 for more detailed data on and analyses of Tanzania.

30. The January 1977 drawing - at a time foreign exchange reserves were rapidly rising and well above critical levels - could have been rejected on "lack of need" grounds. That it was not suggests that up to that date the Fund view of overall Tanzania policy and performance was relatively positive.

31. The Fund apparently does perceive Tanzania as socialist. The public enterprise sector has not been condemned as such or recommendations made for its general phasing out (a contrast with, eg, Jamaican experience).

32. Terms of Trade data for Tanzania since 1976 are back of envelope or global proxy because the previous series was done by an East African Community unit. The global proxy data when crosscheckable overstate actual export prices and understate these for imports exaggerating the quantitative decline in exports and underestimating that of imports.

33. The probable real changes were:

.	Grain	+ 200%
.	Other Food	- 90%
.	Health/Education/Water	- 70%
.	Other Consumer Goods	
	(to USA $ 0.25 per capita)	- 90%
.	Petroleum and Products	- 30%
.	Agricultural Inputs	+ 0%
.	Other Manufacturing Inputs	- 60%
.	Transport Equipment	- 60%
	(including Spares)	
.	Machinery/Plant	- 50/60%
.	Construction Materials	- 60/70%

Because terms of trade data were among the costs of EAC breakup these are partial internal estimates from Bank of Tanzania data. Fund and Bank data differ because they use global proxies which appear to underestimate import price increases - probably because with the growth of arrears has come a risk and waiting 'surcharge' on normal prices.

34. In 1977-78 luck (and bad estimation) on revenue allowed ex post balance - unfortunately as it doubtless encouraged still greater imprudence in 1978-79 Budget Estimates.

35. Over 1975-80 Tanzania delegated major agricultural policy and supervision functions to a de facto autonomous Marketing Development Bureau. The record of oversight, failure to supervise, collapse of parastatal cost and physical control and absurd price relationships it achieved before the damage it was doing was perceived in 1980 sheds no credit on the FAO (who initially staffed it), the World Bank (who financed it and in whose name its senior staff claimed to act) or Tanzania (which failed to supervise or control it).

36. In 1977 unpublished estimates done in connection with an ILO study suggested that average peasant household consuming power was 75% of the minimum wage; ILO, 1983 estimated approximate equality as of 1981; on the same basis the 1984 ratio is of the order of 125-140% (ie peasant household above minimum wage). Both have declined in absolute terms - perhaps 20-25% for peasant households and 55-60% for minimum wage earners over 1977-1984.

37. The very visible 1979-1984 increases in lateness and absenteeism and declines in diligence and morale are evidence in favour of that contention.

38. The author - as one of the analysts working on that report - was among those who were seduced into this tunnel vision stance.

39. The Fund estimated 77%, the Bank (implicitly, based on its shadow rate for Tanzanian studies) thought it about 50% and the Tanzania Treasury about 55%. The divergence depends on the weights given to comparison currencies. The Treasury basket was trade share weighted, the Funds bore little relation to trade shares.

40. Tanzanian participants - including again the author - did realise the risk but underestimated its severity.

41. Partly presented in Minister for Finance's 1980/81 Budget Speech.

42. The EAC breakup is treated as external because its basic causes were the impact of the Amin regime on the Community and strains on payments resulting from the 1973 -74 external economic crisis.

43. Raw intercensal data suggest a 3.3% annual population growth rate but have not been subjected to detailed demographic analysis. To do so

would probably reduce the rate to the 2.8 to 3.0% range as the latest Census was fairly clearly a more complete enumeration than of 1967.

44. Treasury and World Bank calculations are relatively similar given comparable external finance projections. Their actual projections diverge somewhat from those here (and from each other) primarily because of different overall external bridging finance projections.

45. These were faute de mieux decisions, their inflation and parallel/illegal market aggravating potential was perceived by the relevant Tanzanian analysts and decision takers.

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