ESAF RENEWAL: PROJECT DECISION or STRUCTURAL ENTRY POINT?

By Reginald Herbold Green

To Plan is to choose.
Choose to go forward.

- J. K. Nyerere

Consultancy Paper
Prepared for
Group of 24
January 1993
Falmer

INDEX

		Page
	SUMMARY	i
I.	INTRODUCTION: WHAT AGENDAS FOR CONSIDERATION	1
II.	THE IMF AND DEVELOPMENT: WHAT LINKAGES	4
III.	THE ROAD TO ESAF: Model or Muddle?	7
IV.	ADEQUACY OF FINANCE: How Constraining?	10
V.	FIRST LINE LIQUIDITY: The Missing Link	13
VI.	FIXED CAPITAL FORMATION: A PROBLEM FOR SUSTAINABLE ADJUSTMENT	16
VII.	STRUCTURAL ADJUSTMENT OF FUND ROLES?	21
VIII.	AND WHAT OF ESAF?	23
IX.	TOWARD A STRUCTURALLY TRANSFORMED ESAF?	24
	TABLES - 1, 2, 3, 4.	
	MAIN SOURCES AND REFERENCES	a-b

ESAF RENEWAL: PROJECT DECISION or STRUCTURAL ENTRY POINT?

Summary

1. It is desirable to consider ESAF renewal within the context of the overall role of IMF involvement in structural adjustment in small, poor countries - the actual ESAF drawers.

2. Whether the IMF is or should be a development institution is partly a semantic issue. Whether it should provide a neo-IDA import support facility is a quite different question. Providing first line liquidity to preserve policy continuity and an enabling climate for development is just as much a developmental role as is long term soft lending. Arguably it is also one to which the IMF is better suited and one nobody currently plays in respect to ESAF users.

3. Because policy continuity, resource adequacy and increased enterprise fixed capital formation are the three main obstacles to more payoff from structural adjustment for small, poor economies the IMF's present gatekeeper/surveillance team role (and especially fine tuning short term macro monetary targets) appears inappropriate for these countries. An IMF role centred on providing first line liquidity access and write-down/buy-back arrangements on external debt would appear likely to be more productive for all concerned.

4. In support of those functions a neo-ESAF of SDR 1,500-2,000 million a year would appear appropriate. Some "grandfather clause" type provision would be needed for current and potential "shadow" ESAF countries whose drawings may total on the order of $5,000 million.

ESAF RENEWAL: PROJECT DECISION or STRUCTURAL ENTRY POINT?

By Reginald Herbold Green

I.

INTRODUCTION: WHAT AGENDAS FOR CONSIDERATION?

1. Structural adjustment as such is not now at issue. Whatever its limitations and successes - and recent World Bank studies suggest that both are prominent and vary in balance among programmes - structural adjustment as a macro/sectoral framework for organising and imposing conditions on international resource transfers to low income, low performance countries has become dominant since 1980 and will remain so at least for the balance of the decade.

2. The nature and modalities of structural adjustment are very much at issue. Its initial quasi conflation with orthodox stabilisation has to a substantial extent been ended. Issues of transformation, poverty reduction, modalities, contextuality, "national ownership", external debt writedown (rather than full repayment), time perspective have been significantly to marginally synthesized into the originally rather skeletal macroeconomic moded. That process continues.

3. The IMF's continuing role in international financial system and in national financial system interactions with it also not in question. There is no consensus on what is desirable or possible, but few would advocate its abolition or reduction to a purely data collection and analysis role even in respect to small, low income countries.

4. The ways in which the IMF should interact with structural adjustment are in question. Neither on design and negotiation, financing nor monitoring roles is there even a semblance of consensus. The disagreement is not merely over details of policy or of style of relationships with governments of structurally adjusting economies. It includes questioning whether structural adjustment should be taken out of the short term, financial magnitude management arena which is the IMF's basic place of business (and expertise) and whether, therefore,

the IMF should cease to play any significant role in its finance as well as in its design and monitoring.

5. The immediate question is whether ESAF should be extended. The subsidiary questions on that basis turn on terms, uses and - especially - size. Looking at the question that narrowly assumes the issue being addressed is primarily mobilising adequate funds for structural adjustment and either that no structural adjustment of the role of the International Financial Institutions and of the balance among long term restructuring, medium term reviving and rehabilitating and short term contingency buffering finance is needed, or that these issues can best be addressed independent of ESAF.

6. ESAF is a high conditionality facility which opened for business in mid-1990 providing 0.5% interest, drawings for up to 10 years (half grace period) to low income countries with IFI approved structural adjustment programmes. Approvals in force at 30 November 1992 were SDR 2,037 million of which SDR 1,252 million had been drawn. In practice, ESAF serves two roles - *de facto* refinancing maturing standard IMF drawings and augmenting IDA and bilateral import support credits. The shortfalls relate largely to time lags in negotiating high conditionality facilities and to hiatuses in disbursement resulting from use of tight, short term macro monetary targets as a ground for suspension leading to time consuming renegotiation.

7. The assumption that no restructuring of IFI involvement or of flexibility of finance is needed leads - unless one denies that SA is often constrained by inadequate funding - to the conclusion that ESAF should be renewed, should continue to be used basically for general import support and should be enlarged. To date the view that major restructuring of IFI involvement and of the structure/flexibility (independent of total volume) of resources available is needed has tended to lead to the conclusion that ESAF should be terminated with existing SAF/ESAF (and perhaps other) IMF drawings by structurally adjusting countries 'frozen' (e.g. converted to IDA terms, rolled over, perhaps administered by IDA) as part of a major structural reduction of the IMF's role in structural adjustment at least in the low income, medium to micro size economics which in practice utilise SAF/ESAF.

8. Is this an appropriate issue posing framework? It is rather like the early opposition to structural adjustment on the grounds that what was needed was more finance on the same lines as before and that macro and sectoral policy restructuring was inappropriate as a core element in international crisis management packages. Therefore, it is prudent to step back to the macro frame of SA finance and IFI involvement to see whether either needs to be altered structurally and, if so, how before addressing ESAF and, implicitly, the role of the IMF in structural adjustment designing, monitoring and financial fuelling.

9. If the overall question is taken to be structural a series of sub-questions arise:

   a. What role - if any - does/should the IMF play in respect to development finance?

   b. How adequate are present resource transfers in support of structural adjustment programmes?

   c. How is short term contingency finance to be built into structural adjustment financing packages?

   d. Why is structural adjustment - especially but not only in sub-Saharan Africa - frequently associated with low (and even falling) levels of gross fixed capital formation?

   e. What roles should the IMF play in structural adjustment:

      - design and negotiation
      - monitoring
      - financing?

   f. In light of the previous answers, is ESAF an appropriate continuing modality?

   g. If so to what uses, on what terms should what order of magnitude of resources be channelled via ESAF?

   h. Even if ESAF is an inappropriate (or too narrow) modality is there an appropriate structural adjustment financing role for the IMF? If so how could it be more appropriately structured?

10. This is a much more basic and analytical agenda than the simple "ESAF or no? If so how much, how soft?" one. That may not make it better in a decision taking sense even if it does do so conceptually. If there are few problems with structural adjustment that marginal additions to international funding would not overcome; if ESAF is additional funding in danger of being lost (rather than restructured or relocated) if not continued and if any issues of the appropriateness of present IMF levels of and approaches to structural adjustment are basically independent of ESAF, then spending much time on the longer, deeper agenda is a waste of time.

11. The overall, ongoing dialogue on structural adjustment - and the resulting structural adjustment of structural adjustment between the Bank's Accelerated Development Report (1981) and its Long Term Perspective Study (1989) complemented by its Poverty Reduction Directive and Operational Handbook (1991/2) - suggests that it is not safe to make the assumptions necessary to justify focussing on ESAF renewal as a free standing issue complete in and of itself.

12. Therefore, this paper seeks to set out a review of the key issues and general balance of opinion on each of the eight questions addressed.

II.

THE IMF AND DEVELOPMENT: WHAT LINKAGES?

13. The IMF traditionally argued that it was not a development finance institution. By that it meant that long term and - except under special, short term circumstances - subsidised credits fall outside its terms of reference and that design of real sectoral and micro policy (as opposed to monetary macro policy) lay outside its area of expertise.

14. The IMF has drawn back from that position since 1970 in two rather different ways - the second (typified by ESAF) much more basic than the first (typified by the Oil Facility/Trust Fund).

    a. the Oil Facility/Trust Fund instituted in 1974 was designed to help countries face a sudden shock for a limited period of time and,

because poorer members were seen as particularly limited in capacity to adjust or to ride out, provided certain concessions to them in respect to interest rates and repayment periods. It was not a permanent mechanism, did have finite repayment periods in both theory and practice and did not involve the IMF in detailed micro and sectoral policy vetting - indeed was in practice quite low conditionality;

b. subsequent to 1980, the IMF moved into detailed policy prescription and result vetting - albeit still largely at the macro-monetary level - and became a gate keeper for structural adjustment lending. Both in response to pressure to back such requirements with resources and because structural adjustment in low income countries turned out to be long term (10 years of continuous programmes already in the case of Ghana) instead of medium term (3 or at most 5 years) as initially envisaged the Fund entered into a process of providing longer term credit provision, de facto roll-overs, concessions on interest rates leading to ESAF. Unlike the Oil Facility, the credits were open sided (as to justification) and de facto open ended (with no clear cut off date or point even for particular countries) as well as being high conditionality involving very detailed policy prescribing and result vetting.

15. In the process, the IMF has ceased to play its traditional financing role for low income countries with structural adjustment programmes. It may or may not provide more drawings to some adjusting members - what it does not do for any country with a structural adjustment programme is provide quick, ready access first line liquidity to cover the initial cash flow requirements of sudden, unprojected external shocks. As no other institution has taken over this role and none is likely to, the result is that an exogenous shock can least easily be buffered by a low income, structurally adjusting country even though these countries are particularly likely to sustain and particularly vulnerable to them.

16. The IMF has not matched this reduction in access to short term crisis management finance with any systematic waiver or easing of short term performance criteria. It may on occasion waive them, but it is not externally clear under what conditions and - at least to a drawer - the

whole process appears opaque, subjective and on a grace and favour basis.

17. Clearly if being a development finance institution is defined as providing long term finance, then the IMF has become more involved in development. Similarly, if setting overall and to a degree detailed sub-macro policy and performance requirements is seen as integral to development finance then the IMF is now more involved in that too. If, however, the IMF's role is perceived as giving broad guidance on short (or long) term macro monetary enabling climates for stable development and providing the financial means to maintain stability of policy and praxis in the face of short term liquidity crises (especially those flowing from exogenous events or unanticipated side effects of Fund/Bank backed adjustment policies) then the Fund's role in development today is less effective than it was in the mid-1970s. It has come to overlap IDA in providing finance and the World Bank in providing detailed macro to micro, monetary and real advice backed by provison/withholding of finance. In the process nobody has been left to play its own previous role of stabilising through provision of first line liquidity.

18. That reopens the question of whether the IMF is a development institution from a somewhat different perspective. Clearly access to first line liquidity is not a sufficient condition for stable development. However, it is a conducive and perhaps a necessary one. Similarly, short term, relatively limited volume credits are clearly inadequate either for rehabilitating debilitated capital stock bases or for providing the interim import capacity to raise utilisation ratios in the cases of severe initial structural imbalance. But this does not necessarily mean they are unimportant - preserving stability and predictability is arguably even more important in a small, poor economy undertaking structural adjustment than it usually is. Because annual macro budgeting in a Consultative Group or public finance context rarely includes contingency margins and is usually based on relatively optimistic assumptions, external shocks are particularly likely to require access to first line liquidity. In the case of low income structurally adjusting countries virtually by definition neither external reserves nor international commercial banks are likely sources for such liquidity. Therefore, it is at least arguable that the IMF's

primary duty as a development finance institution lies precisely in providing access to first line liquidity not in quasi replication of IDA's import support credits.

19. The IMF (including its longest serving official, executive director, and intellectual leader - J. J. Polak) is clearly uneasy at the results of their post 1980 adjustment in respect to interaction with low income, structurally adjusting countries. They are far from convinced that trying to replicate the World Bank's real micro and sectoral expertise or shadowing IDA is an optimal path for the Fund. On the other hand, at least to date, no coherent proposals for any other strategic relationship to structural adjustment has emerged from Fund thinking. Above all it has not seriously questioned either its own role as a gatekeeper to structural adjustment programmes or the suitability of short term, macro monetary performance criteria for monitoring them.

III.

THE ROAD TO ESAF: Model or Muddle?

20. ESAF does not appear to have been the product of any medium term Fund strategy as to how it should relate to the financing requirements of structural adjustment in small poor countries. Rather it emerged from unanticipated pressures on structurally adjusting economies and on the Fund in the first half of the 1980s - particularly in Sub-Saharan Africa and paradigmatically in Ghana.

21. The main elements in the constellation of pressures were:

    a. the realisation that even if other structural imbalances were successfully addressed, closing export earnings/import requirement gaps would in many cases take at least a decade - partly because both primary commodity global trade volume growth and price trends (together dominating income terms of trade/earned import capacity for small, low income structurally adjusting economies) showed no signs of recovery to 1960s or second half of 1970s conditions, but tended to drift or lurch downward with very limited periods of partial recovery;

b. acceptance that very large (relative to exports) IMF drawings on traditional periods and interest rates were an inappropriate form of medium to long term adjustment finance - after all IMF Agreements regularly included bans on any similar magnitude of borrowings on such terms from any other source;

c. the recurrent need to use IMF finance to fill external resource mobilisation gaps - between what the Bank-Fund-country felt were the lowest flows consistent with sustained adjustment and what bilaterals would and the Bank could pledge. As "gatekeeper" the Fund felt an obligation to facilitate effectiveness of entry once it had issued a gate pass;

d. a realisation that repayment of Standby or even Extended Arrangement drawings while a structural external account gap persisted would shatter programmes (very particularly Ghana's) both the Fund and the Bank viewed as well designed, seriously implemented and performing well on most criteria;

e. combined with a Fund disinclination to institute any generalisable pattern of back to back repurchase and redrawing (which would in any case not by itself have addressed the interest rate problem).

22. SAF and ESAF have responded to these pressures:

a. because the credits are long term (up to ten years with about half grace period) and highly concessional, they do reduce both the immediate burden of interest charges and the medium term one of repayment:

b. thus averting the twin risks of successful structural adjustment programmes being shattered by the need to repay the IMF and/or the IMF's "non performing loan book" in Africa ballooning by the sudden addition of countries the Fund had - up to the day of default - been praising for virtuous conduct;

c. and by being freely usable - <u>de facto</u> general import, or priority debt service, support credits - SAF/ESAF drawings both allowed the IMF to channel funds to operational imports to reactivate under-utilised capacity (the quick payoff front of Structural Adjustment)

and to avoid the need to work out detailed sectoral and project packages.

23. Another side of SAF/ESAF - at least as they relate to Sub-Saharan Africa - has attracted less attention. The Fund appears to be following a systematic two track withdrawal of standard liquidity provision from the sub-continent partly offset by SAF/ESAF drawings:

    a. new standby and extended arrangements are few and far between so that net repayments on such facilities began in 1984 and since 1986 (effective inauguration of SAF/ESAF process) have been fluctuating around $1,000 million a year;

    b. with at most half of this withdrawal of normal Fund resources refinanced by *de facto* conversions to ESAF.

    Whether by intention or not this strategy at least implicitly asserts that there is no place for traditional quick access first line liquidity provision (contingency finance) in SSA.

24. While in principle (Table 2) ESAF eligibility extends to virtually all low (more liberally defined than by IDA) countries including China, India and Pakistan, the actual pattern of use (Table 1) is somewhat narrower. The common characteristics are economic smallness, low incomes (in the IDA sense), well established structural adjustment programme presence, little prospect of overcoming the external account structural deficit by 2000. These characteristics pertain to many SSA economies and to lesser numbers of small Latin American/Caribbean and South Asian ones plus Bangladesh.

25. ESAF is not insignificant in size. As of late 1992 SAF/ESAF arrangements in force totalled SDR 2,037 million of which SDR 1,252 million had been drawn (Table 1). However:

    a. this represents 10% of authorisations and 13% of drawings under programmes in force in late 1992;

    b. it is small relative either to IDA or to total external financial flows to small, low income structurally adjusting economies;

c. and much of it represents not new money but <u>de facto</u> conversion of old standby and extended facility drawings to ESAF to avert programme collapse and/or default on repurchase obligations.

26. In respect to continuity and predictability of finance, ESAF - like other IMF drawings - has had a negative impact, especially when an exogenous shock or a side effect of a SAP policy had a significant impact on out-turn. More generally it causes discontinuous flows with unpredictable gaps since one agreement rarely flows smoothly into the next For example, the SAFs for Chad, Guinea-Bissau and Tanzania expired in 1990. In no case was a smooth phase-in of a consecutive ESAF achieved. Indeed as of late 1992 only Tanzania had negotiated an ESAF (arranged at the end of July 1991). This results in large part because short term performance criteria have a far greater immediate impact on flows from the Fund than from the Bank or bilaterals. In the latter cases there is more time to agree on waiver, restructuring or modification of criteria which, in any event, tend to be relatively more flexible as to levels and dates of attainment if best efforts have been made and poor performance appears to be substantially related to events beyond the recipient's control and/or reasonable expectations at the time of the agreement.

IV.

ADEQUACY OF FINANCE: How Constraining?

27. The World Bank's analysis of SAPs (World Bank 1992, Elbadawi) increasingly demonstrates two factors:

    a. higher levels of net external resource transfers improve performance - particularly in SSA;

    b. policy changes, resource transfer levels and improved performance are all correlated.

28. This means - quite apart from the evident difficulties of constructing counterfactuals, setting up meaningful time periods for multi country comparisons, and/or categorising countries as seriously pursuing structural adjustment (some, e.g. Zimbabwe 1984-1990, without Fund/Bank

approved SAPs in place) or not (with some, e.g. Zaire during most of the past decade, nominally having approved SAPs) - that relating improved performance exclusively to policy changes or exclusively to additional resource transfers is implausible. Further, it suggests that the improvement may be a joint product of policy change combined with additional resources to permit stability of the new policy framework as well as to take advantage of "enabling climate" opportunities for increased production.

29. The impression - or presumption - flowing from the cross country data would appear to be confirmed by particular country experience. Ghana which has seen an increase in external resource transfers from under $10 per capita pre SAP to over $50 per capita during a decade of successive structural adjustment programmes has achieved a reasonable growth rate, significant recovery of basic (human and social investment services) and rehabilitation of infrastructure. Thus despite disastrous terms of trade experience (1990 GDP was $800 million - 12.8% - below what it would have been ceteris paribus at 1980 terms of trade, Table 3) and very slow recovery of Gross Fixed Investment (net was - on reasonable current price depreciation estimates - negative until perhaps 1988), a stable climate of positive economic expectations as well as a considerable rehabilitation of public and business perceptions of the government has been achieved.

30. In Zambia, by contrast, all pre-1992 Structural Adjustment Programmes were underfunded. Before 1990 all implied a positive current account balance. In a demonstrably import starved economy suffering from massive terms of trade deterioration (probably over 25% of GDP as of 1990) the result of successive failed programmes enthusiastically begun but rapidly eroded and abandoned in the face of economic decline and social unrest should have been quite predictable (indeed was predicted by some observers not necessarily excluding World Bank practitioners). The lack of policy adequacy and especially continuity cannot be seen as separate from inadequate finance. The results included - at least until 1992 - a disabling climate of expectations and a continued erosion of government credibility as demonstrated by the 1991 election results.

31. Another way of looking at adequacy would be to contrast exogenous (especially terms of trade) losses with ODA gains in structurally adjusting countries. On a majority of SSA cases for which data is readily available (Tables 3,4), the former exceeded the latter and even in those for which this is not the case the positive margin has been narrow (e.g. Tanzania had $90 million losses and $104 million gains for a net of $14 million or 0.6% of GDP in 1990). Since a majority of these economies already faced severe problems and exhibited relatively poor performance in 1980 the data (Table 3) strongly suggest resource inadequacy. The data for other small low income countries is not as readily available but several, e.g. Guyana, Honduras, Sri Lanka and Bangladesh, appear to have ODA gain/terms of trade loss balances ranging from minimally positive to highly negative.

32. For Sub-Saharan Africa, the overall net resource transfer record (Table 4) shows 15% current price growth over 1980-83 followed by a 65% fall over 1983-85 and growth over 1985-1989 (the rapid SAP expansion period) of 210% with 1989 about 16% above 1980 in nominal terms or about 30% lower in constant price per capita terms; even independent of adjustment for terms of trade losses.

33. Unless one posits a negative correlation between resource availability and sustained policy reform - which is quite against the weight of the evidence as analysed by the World Bank - the case for additional resource transfers in support of structural adjustment programmes is overwhelming even if reasonable persons may differ on how much more. The one area in which the World Bank's SSA studies have not been structurally adjusted between 1981 and 1989 is on the need for additional net transfers. Except for the first (which called for doubling in real terms between 1980 and 1985!), the projected requirements have tended to appear optimistic to analysts but daunting or impossible to resource providers/mobilisers suggesting a compromise (perhaps subliminal) between projections of programme requirements and of possible mobilisation ceilings. Certainly that tension has entered into the preparation of number of individual country Consultative Group submissions.

34. Within the total categories and sub-categories have evolved very differently. Bilateral ODA and non-IFI multilateral ODA rose 45% with

loans falling 35% (largely early in the decade) and grants rising 115% (largely in its second half). The Bank group's net transfers rose 150% (peaking in 1987) with an IDA growth of 190% (all achieved by 1987) more than offsetting a Bank proper swing from net transfers of $403 million (6% of all net transfers) in 1980 to a net outflow of $391 million in 1989 (slightly under 5% of that year's total, but representing a recovery from -$725 million and 9% in 1988). This suggests a catalytic role by the Bank in structural adjustment launching, with bilateral grants taking up the slack as their confidence in structural adjustment programmes rose and the Bank's ability either to increase IDA's total resource or to reallocate resources from the larger Asian low income countries to the smaller SSA low income countries became increasingly constrained.

35. The IMF's record is quite different. In 1980 net transfers were $730 million (11% of the total). From 1984 on they have been negative standing at $728 million outflow (virtually a 9% offset to the net transfer total) in 1989 (Table 4). If SAF/ESAF were broken out the net repayment trend would be even more marked. After 1989 there was a decline in net outflows as ESAF expanded disbursements, payments on earlier facilities by states able to pay ran down and several cases of arrears remained insoluble. Had the IMF maintained its absolute net transfer level of 1980 then in 1989 net transfers to SSA would have been one sixth higher ($10,160 million instead of the actual $8,692 million). In the context of overall inadequacy of net transfers, the IMF's record does indeed provide grounds for concern.

V.

FIRST LINE LIQUIDITY: The Missing Link

36. Small low income economies are in almost all cases extremely susceptible to external shocks. They are also both economically and, frequently, ecologically rigid and brittle. Therefore, rapid adjustment through alteration of export and production patterns is difficult to impossible. Radical reduction of import absorption (whether via prices or rationing) is likely to have multiplied negative production impact and to exacerbate fiscal imbalances.

37. The case for riding out short term self reversing shocks (e.g. drought) and of having a breathing space to phase in adjustment to less temporary ones (e.g. terms of trade deterioration) is reasonably evident. The optimal way is doubtless high levels of external reserves held for contingency use. In the case of many of these economies the standard three month rule of thumb is probably inadequate - six might be more prudent. However, most structurally adjusting small poor countries have very low external reserves (often 1 to 2 months imports) as a result of historic low exports relative to import demand and up to three decades of economic malaise.

38. Therefore these economies need access to first line liquidity to bridge the gap between shock and either its reversal or more permanent adjustment. For example, in the case of drought, external assistance can usually be secured but with a time lag meaning that interim imports must be financed out of nationally provided foreign exchange as in - e.g. Zimbabwe and Zambia in 1992. There are three basic sources of such liquidity:

    a. commercial banks;
    b. the IMF;
    c. external assistance.

39. Understandably very few small, poor structurally adjusting countries have access to new commercial bank credit beyond revolving trade credits often backed by pledging future exports. An external shock threatening economic performance is likely to call existing facilities into question not be an occasion for negotiating additional ones.

40. The IMF was created primarily to set up a financial enabling climate for international trade. Historically it was the major source of first line liquidity albeit since 1970 arguably commercial banks have ousted it from that role for most middle and large sized economies. But it does not offer any access to first line liquidity to any country with a high conditionality drawing facility. All drawings from such facilities are, in fact, included in external financial projections which are frequently overly optimistic and certainly provide no margin for substantial negative exogenous shocks.

41. At first glance the IMF's Compensatory and Contingency Facilities might seem to be first line liquidity oriented. Indeed in the mid-1970s the Compensatory Facility arguably did play that role. However, today both facilities are high conditionality ones utilised in association with SAPS. Therefore they cannot be rapid access.

42. The symmetry principle providing for accelerated repayment after favourable shocks has bedevilled Contingency Facility dialogue. While the concept makes sense in practice the application represents an inefficient attempt at fine tuning. Drawings are unlikely to have fully offset the negative shock; what is a positive shock's magnitude is a matter of judgement; probably early repayments would be trivial to the IMF. The combination of high conditionality/negotiation lags and symmetry make the Compensatory and Contingency Facilities virtually useless as first line liquidity sources. In principle they could be restructured as low conditionality, speedy access facilities. In practice restructuring ESAF is likely to prove easier and speedier (or less difficult and problematic).

43. In principle the IMF is ready to renegotiate drawing schedules and indeed created a small contingency facility in 1988. The latter has never been used and the time normally required for renegotiation rules that out as a source of first line liquidity. Indeed since exogenous shocks do not result in automatic loosening - let alone waiver - of performance criteria one result of an exogenous shock is all too likely to be a suspension of access to an existing agreement with the IMF, not a new or enhanced one.

44. External assistance negotiated post shock is unsatisfactory as a source of first line liquidity because of time lags. Even in the case of drought crises - in respect to which additional ODA is more often than not forthcoming - the lag from clear identification of crisis to significant arrival of ODA financed imports is rarely under six months which means either heavy use of domestic external flows or reserves or a build-up of forced migration and near famine conditions. In the case of economic shocks - e.g. terms of trade - the lag is even greater.

45. In principle, contingency reserves (and conditions to trigger their use) could be built into Policy Framework Papers and Consultancy Group proposal and pledging matrices. In practice this does not happen. The

proposals to the Consultative Groups (or their poor relations, UNDP Roundtables) are normally a bargained compromise between what the country feels is the minimum forex and finance needed and what the international sponsoring agency (which often agrees on the need level) thinks is the highest request that will not drive prospective donors away. Thus no contingency margin - let alone 'facility' - is built into the proposals. Further, virtually all Consultative Group/Roundtable pledges fall below proposed levels and virtually all deliveries are either below pledged levels, significantly lagged (which on a cash flow basis comes to the same thing) or both.

46. Thus the group of countries which arguably have the greatest need for access to first line liquidity in fact have the least. This is a major weakness in the present structuring of international support for structural adjustment.

47. This is not to argue that short term liquidity credit is a satisfactory source of finance to resolve structural problems. It is to make the very different assertion that the presence of structural problems does not mean the absence of stochastic shocks or reduce the need for immediate access to resources to cope with them in the short run. Arguably such credit could be on normal terms (perhaps with an explicit interest rate subsidy) if the following Consultative Group/Roundtable meetings specifically dealt not only with issues relating to longer term adjustment but also with refinancing the initial short term borrowing.

VI.

FIXED CAPITAL FORMATION: A PROBLEM FOR SUSTAINABLE ADJUSTMENT

48. Structurally adjusting economies have been marked by low average levels of gross fixed capital formation and often with negative net ones if depreciation in the National Accounts is calculated on replacement cost. The most typical pattern is an initial fall followed by a lagged, sluggish recovery (Elbadawi 1992).

49. That sketch is a statement of empirical reality which is documented in World Bank reviews of structural adjustment performance. It does not

assert that structural adjustment is the cause of unsustainably low levels of GFCF, but it does indicate that to date structural adjustment programmes and strategies are failing to resolve that problem.

50. The initial decline is understandable and may be desirable. The typical economy entering into structural adjustment has very severe imbalances including low capacity utilisation and deferred maintenance. Initially radical reduction of macro policy distortions backed by a shift of resources (and import capacity) to higher capacity utilisation, catch up maintenance (which rarely figures fully as capital formation in national aggregates) and rehabilitation of basic public services makes good sense (cf Helleiner 1992a). It can fairly rapidly generate output growth and an improved government fiscal position. So long as key bottle-necks and rebuilding are addressed on the fixed investment side that approach can be strategically sound for several years (as demonstrated in Zimbabwe's nationally designed structural adjustment programme over 1984-90 which generated about 4.5% annual real GDP growth even though GFCF was 10% to 15% of GDP and adjusted NFCF negligible to 5%).

51. However, such a shift cannot be sustainable beyond - say - three to six years:

   a. rising output out of stagnant capacity will presently run into capacity constraints (as Zimbabwe did by 1990);

   b. transformation is likely to require different - and therefore new - fixed investment not least in export diversification;

   c. infrastructural capacity - after the rehabilitation phase - is likely to pose both qualitative and quantitative constraints fairly quickly.

52. This is not an area of major disagreement among the IFIs, the bilaterals and the small, poor adjusting economies. While there are some divergences on issues of timing, sequencing and volume, what is remarkable is the shift of consensus from a fixed investment first (while all else including capacity utilisation was cut) approach to correction of gross distortions paralleled by restoration of production of goods and basic services followed by GFCF restoration strategy.

This is a sub-strategy of structural adjustment for small, poor countries. Its distinctive features *inter alia* include implicit acceptance of plugging government fiscal gaps with ODA (especially import support finance with the government selling import capacity to the enterprise sector so it can restore capacity while the government reduces or eliminates domestic bank borrowing) and rather more openly accepting that exceptional import capacity transfers may be needed for up to a decade before normal investment plus export growth restore a less ODA fuelled and sustained recovery and adjustment process.

53. This sub-strategy has several consequences:

a. pressure on the domestic banking system is reduced - the government virtually ceases to be a borrower and the entire domestic credit formation expansion ceiling (which remains a trigger clause), such as it is, is available to the enterprise sector;

b. ODA becomes a larger element on the supply side of general import capacity so that "sustainable exchange rate" projections must incorporate ODA (and in particular import support ODA) as well as other major sources of import capacity to be meaningful;

c. government investment restoration usually leads enterprise sector investment recovery and the latter is initially concentrated on working capital to finance restored capacity utilisation (especially stocks of raw materials, goods in process, final products, spare parts and credit to wholesalers and retailers);

d. government economic activity thus is likely to pull in enterprise GFCF in four ways:

- overall demand recovery
- restoration of infrastructure (especially transport, communications and energy)
- removal of gross distortions of prices (e.g. exchange rates), of shortages (e.g. of imported inputs and of bank credit), of regulations (e.g. of prices and of external transactions) which literally prevent enterprise activity or make it more costly and less efficient

- creation of a relatively stable climate of enabling economic policy and practice raising faith in future viability of present and future fixed capital investments.

54. The IMF has accepted this model in SSA - though less so in some other ESAF eligible economies which might have benefited from it (notably the Philippines). However, the word is accepted - this structural adjustment of structural adjustment is basically the product of interaction and discourse among recipient countries (recipients of ODA and of adjustment costs as well as of gains), non-financial international institutions (notably UNICEF) and the World Bank. That process and the characteristics of the new model raise questions about the IMF's continued role as "gatekeeper" and as surveillance team for short term macro monetary performance criteria with non-feasance in respect to the latter nominally (though increasingly less so in practice except for ESAF and other IMF flows) leading to slamming the gate shut again.

55. However, the main present problem is not with the implicit model nor with IMF cooperation/acquiescence in it. Rather it is the failure - or at any rate the pace and level - of enterprise sector fixed investment recovery. Given the financing sources of the government investment recovery, the basic problem is usually unlikely to be crowding out (e.g. in Ghana, Tanzania and even Mozambique government domestic banking system borrowing has gone negative and - including grant ODA - the recurrent budgets are in surplus). Nor would it appear to be that small, low income structurally adjusting economies have on average made less changes or shown less commitment. The World Bank's conclusion - in respect to SSA adjusting countries which are all in this category and comprise a majority of its members in its 1992 evaluation is "They had undertaken more, not less, adjustment.... The differences in average economic outcomes seem to result from differences in the [starting baseline] level of development" (Bank 1992, p. 14).

56. That conclusion implies that if:

    a. import capacity growth (very highly correlated with renewed growth in adjusting economies) is kept up;

    b. gross policy and price distortions are avoided;

c. the economic climate remains, and is expected to continue to remain, stable and enabling for several years; and

d. there are mechanisms which allow buffering of exogenous shocks.

then the animal spirits of entrepreneurs (usually led by domestic ones) will rise and with them investment. But the process will take longer than has been expected - as have all other positive results in low income, small structurally adjusting economies. Further, initially both profitability and prudence suggest that initial enterprise investment recovery will be biased toward working capital and that new fixed investment will initially focus heavily on restoration/expansion of pre-existing export capacity now rendered profitable and less uncertain by sustained policy change (e.g. timber processing and gold mining in Ghana).

57. But for that to happen:

a. either enhanced ODA inflows or reduced debt service outflows or both will be needed over the foreseeable future;

b. contingency finance (first line liquidity plus longer term adjustment to new shocks) is very important to preserve the climate of continuity and gradual improvement needed to draw in enterprise investment (vide the collapse of investor animal spirits in Zimbabwe over 1991-92 when a self validating exchange rate collapse, domestic inflation rise spiral emerged from liberalisation under phase two structural adjustment and was locked in place when drought required diversion of major amounts of domestic import capacity to grain because of the absence of effective access to first line liquidity.)

58. ESAF is not directly relevant to this scenario. Clearly it neither is channelled directly to the enterprise sector nor, to the extent that sector buys the import capacity it provides, is its utilisation primarily to cover the import requirements of enterprise fixed investment. However, it is - like other import finance - a contributor to the durable recovery of import capacity which is the first necessary condition for sustaining policy and demand improvement, long enough to

restore entrepreneurs animal spirits and therefore their investment (cf Helleiner 1992a, Serven and Solimano 1990).

VII.

STRUCTURAL ADJUSTMENT OF FUND ROLES?

59. The IMF's role in structural adjustment has never been primarily one of providing finance. For the larger economies it has not the resources; for the smaller poorer ones it (correctly) perceives its standard facilities as inappropriate; is far from at ease with the idea of substantial long term lending and has never sought to finance ESAF at levels adequate to do more than give a modest boost to import support finance and a major one to IMF attempts to disentangle from late 1970s and early 1980s standard facility overlending in SSA.

60. The IMF's role has been and remains primarily that of "gatekeeper" and compliance officer - roles it shares with the World Bank. Without an IMF agreement (whether for drawings, at zero targeted drawings or shadow) no internationally approved Structural Adjustment programme can exist and the World Bank led Consultative Group financial mobilisation process cannot begin. Once there is an agreement, progress toward quantified, dated short term macro monetary targets are checked regularly with failure to meet them leading to suspension of IMF drawings and renegotiation. The risk to other external funds (including the World Bank's) is much less, especially if unforeseeable events have influenced results and/or movement is in the desired direction.

61. Therefore, before considering what to do in respect to ESAF it is appropriate to consider what the future role of the IMF in structural adjustment in respect to small, poor countries should be. Realistically "none" is not a viable answer and, indeed, is not an appropriate one in respect to first line liquidity.

62. The IMF's short term macro monetary target approach is unsatisfactory as a frame for medium term, real supply enhancement focussed structural adjustment. At least in small, poor economies rigidities are severe enough and external shocks frequent enough that short term (often quarterly) targets - quite apart from seasonality and other projection

problems - are unsuitable. Co-gatekeeping/surveillance together with the World Bank reduces some of these problems but does not fully overcome them and introduces very real (even if usually diplomatically veiled) tensions between the two IFIs.

63. For small, poor countries (basically the ESAF eligible list minus China, India and probably Pakistan) the external side of programme design, negotiation and mobilisation should be led by the World Bank. The IMF would be consulted - especially on exchange rates, monetary policy, financial institutions, and related macro monetary issues but would not be a separate gatekeeper.

64. By the same token, performance targets would be medium term, ranges not single numbers and - under predefined conditions - waived or rolled forward after exogenous shocks. The IMF's views and expertise (like those of the recipient country, UNDP, UNICEF and others) would be taken into account by the World Bank in negotiating such targets with (proposing them to) new or ongoing programme adjusting countries but there would be a single set of targets and a single monitoring process. The latter should be designed to reduce its demands on poor, small economies' scarcest resource - able analysts and other senior economic design and management personnel.

65. However, in two areas the Fund should play a more active role than it now does:

   a. external debt write-down and providing finance for Baker plus type packages;

   b. restoration of access to first line liquidity (possibly with provisions for its being refinanced in subsequent consultative group packages) including standby facilities to avert self validating but economically unhelpful currency sink/inflation rise spirals.

These - especially the second - are areas of Fund expertise and historic leadership in which the principles of specialisation and division of labour suggest its 1980s low profile in respect to small, poor countries has been unwise and damaging to the Fund's own stated

purposes and their relevance to creating an enabling climate for policy and performance continuity conducive to development.

VIII.

AND WHAT OF ESAF?

66. ESAF as now operated is not relevant to the proposed structural adjustment of the IMF's roles. It is a marginal IDA and as such the resources used for it could better be merged with IDA or (better still) allocated to the Regional Development Funds of the Regional Development Banks whose ability to participate in structural adjustment by their borrower member states is significantly constrained by limited access to soft finance. From a continuity perspective IDA and the RDF's are higher quality sources - disbursements are not suddenly suspended on the basis of rigid quarterly macro monetary target performance tests.

67. Approval of neo-ESAF for three years on this basis would require SDR 4,500-6,000 million because gross disbursements would not over that period be significantly reduced by repurchases. How to finance that amount (if the principle is agreed) turns on what routes are most convenient/acceptable to the IMF and those members called on to make contributions. Options (jointly or severally) include:

   i. reallocation of resources nominally designated for Compensatory/Contingency Facility use;
   ii. allocations out of IMF profits;
   iii. gold sales with profits allocated to neo-ESAF;
   iv. allocation of receipts from repurchases of standard IMF drawings by ESAF eligible countries;
   v. funding by industrial and other surplus IMF member states.

68. The case against winding up ESAF is threefold:

   a. if ESAF were not renewed there is no guarantee a comparable increase in RDF and/or IDA resources would be secured;

   b. ESAF in practice guarantees an adjusting country which stays roughly on target and has high past IMF drawings that repurchase

obligations will not collapse its programme because the Fund will *de facto* roll the old drawings across into softer, longer term ESAF drawings;

c. if the IMF is to do more in respect to debt writedowns and first line liquidity provisions there are appropriate uses for the ESAF resource flows even if they are not the same as the present ones.

IX.

TOWARD A STRUCTURALLY TRANSFORMED ESAF?

69. If ESAF is to be continued it should be focussed on:

a. providing rapid access first line liquidity to small, poor structurally adjusting countries experiencing severe exogenous shocks or self validating exchange rate collapse/domestic inflation acceleration spirals following liberalisation;

b. providing finance for commercial debt write-down/buy-back deals.

Its present approximately 10 years repayment with five years grace is not necessarily appropriate (the 0.5% interest rate is) as the former could in some cases be shorter - especially if refinance can be built into subsequent consultative group programmes and the latter might more appropriately have a 15 or 20 year maximum repayment period.

70. The appropriate size requires further study. For what it is worth, ESAF commitments over its first two years totalled about SDR 2,100 million and drawings SDR 1,200 million. However, the proposed purposes are rather different and the actual 1990-92 flows were well below target. Given the substantial debt overhang and the high desire for exit by lenders to poor, small economies and the numerous shocks (individually unpredictable but collectively quite foreseeable) a renewal at an annual rate of SDR 1,500-2,000 million a year might be appropriate. That level assumes that - whether formally eligible or not - China, India and Pakistan would not use the facility. It also assumes Consultative Group ex-post refinance of the bulk of first line liquidity drawings in respect to shocks not fully or rapidly reversed.

71. If this route is taken, no major problem need arise on present ESAF drawing repayments so long as the recipient economies do recover and substantial Consultative Group finance remains available. However, several ESAF eligible countries with actual or potential "shadow" agreements (notably Zambia but potentially others e.g. Nigeria, Sudan) would require special "grandfather clause" consideration. They drew to cover structural not cyclical deficits, cannot afford standard IMF interest rates and can only repurchase by borrowing from somewhere else. Two ways of handling that are worth exploring:

    a. specific provision through Consultative Groups for repaying currently outstanding standard facility IMF drawings for a predefined group of countries;

    b. an IMF conversion (to terms similar to present ESAF) facility perhaps on a once for all basis for each eligible country. Perhaps $5,000 million total outstandings are involved.

72. In respect to first line liquidity the facility would be low conditionality, quick access, limited total access. Evidence of an unforeseen (and reasonably unforeseeable) shock which threatened to cripple an otherwise satisfactory structural adjustment (or immediate post structural adjustment transformation) programme would be grounds for drawing and the size would be determined by the external account implications of the shock (e.g. grain imports plus related vehicle and fuel imports in the case of drought) up to 50% of quota in any one year and 75% total. Interest would be 0.5% Repayment could either be over 10 years with 3 years grace or over 5 years with 2 years grace, if arrangements are made for Consultative Groups to provide grant or soft, long credit funds to refinance. Following the initial shock, continuing (or non reversed) losses (e.g. on beverage price declines) could be financed via the Consultative Groups (as has *de facto* been done in the case of Ghana). The basic neo-ESAF role would be bridging finance - the original core IMF function.

73. A special first line liquidity requirement is averting downward exchange rate spirals interacting with rising domestic inflation following liberalisation. These, once begun, are self validating if the country has no foreign exchange to calm the market. A notable case is Zimbabwe 1991-1992, where devaluation far exceeded any reasonable

estimate of initial over-valuation and - largely as a result - inflation doubled creating a most negative climate for output, enterprise profits and business confidence. In small poor economies the volume of expectational purchase finance is usually limited so that manageable levels of standby drawing arrangements should be adequate to avert or break such spirals.

74. While most small, poor structurally adjusting countries - almost all of whom are moderately to catastrophically debt distressed (at least if full payment ever is assumed) - are predominantly official borrowers several have not insignificant commercial borrowings (notably Nigeria, Cote d'Ivoire the Philippines, Angola, the Sudan and the Cameroon which presumably will become ESAF eligible). For many the Baker plus terms granted Egypt, Poland, Costa Rica and Nicaragua would be adequate. For the most severely distressed (e.g. Mozambique, Tanzania, Somalia, Sudan) a Bolivian style buy-back at under 20% of face value would be needed.

75. The present Fund/Bank support for refinancings/buy-backs has been used to a limited extent partly because it has tended to be at standard Bank/Fund interest rates. Were interest reduced to 0.5%, then a five year grace period, and a ten to twenty year total duration should be manageable. While much of the debt in question is serviced only partially and fitfully and in the extreme cases there is little real pressure today because the creditors know very little can be paid, clearing these arrears and overhangs would be valuable:

a. to general investor attitude to the country;

b. to ensuring interest and dividends on new enterprise investment could (if earned) be transferred;

c. allowing renewed access to revolving trade credits and use of confirmed letters of acceptance thereby reducing the foreign exchange working capital tied up in trading and manufacturing stocks of imported goods;

d. possibly reducing the incidence of prices above the going rate (apparently according to partial World Bank studies up to 20-25% overall for SSA) paid for standard imports which probably relates

in part to past payments defaults and present perceived payments risk even for cash on delivery shipments.

76. These uses of neo-ESAF would not directly address the Gross Fixed Capital Formation level rehabilitation problem. But indirectly they would contribute toward reducing it:

a. the access to first line liquidity would help maintain policy and performance stability and potential investor confidence in its continuing;

b. the resolution of the past debt overhang would increase investor confidence that new investments (whether loan or equity) could be serviced in foreign exchange if domestic surpluses were earned.

77. Therefore, ESAF should be renewed but as part of a restructured IMF role in small, poor country structural adjustment programmes.

Table 1
Stand-By, Extended, Structural Adjustment Facility (SAF), and Enhanced Structural Adjustment Facility (ESAF) Arrangements as of November 30, 1992

(million SDRs)

Member	Data of Arrangements	Expiration Date	Amount Agreed	Undrawn Balance
Stand-by arrangements			**5,833.02**	**3,782.08**
Albania	August 26, 1992	August 25, 1993	20.00	13.75
Barbados	February 7, 1992	May 31, 1993	23.89	9.22
Brazil	January 29, 1992	August 31, 1993	1,500.00	1,372.50
Bulgaria	April 17, 1992	April 16, 1993	155.00	62.00
Czechoslovakia	April 3, 1992	April 2, 1993	236.00	200.00
Dominican Republic	August 28, 1991	March 27, 1993	39.24	39.24
Ecuador	December 11, 1991	December 10, 1992	75.00	56.44
Egypt	May 17, 1991	March 1, 1993	278.00	130.80
El Salvador	January 6, 1992	March 5, 1993	41.50	41.50
Estonia	September 16, 1992	September 15, 1993	27.90	20.15
Gabon	September 30, 1991	March 29, 1993	28.00	24.00
India	October 31, 1991	June 30, 1993	1,656.00	924.00
Jordan	February 26, 1992	August 25, 1993	44.40	22.20
Latvia	September 14, 1992	September 13, 1993	54.90	39.65
Lithuania	October 21, 1992	September 20, 1993	56.93	39.68
Mongolia	October 4, 1991	December 31, 1992	22.50	8.75
Morocco	January 31, 1992	March 31, 1993	91.98	73.58
Nicaragua	September 18, 1991	March 17, 1993	40.86	23.83
Panama	February 24, 1992	December 23, 1993	93.68	58.83
Philippines	February 20, 1991	March 31, 1993	264.20	56.60
Romania	May 29, 1992	March 28, 1993	314.04	52.34
Russia	August 5, 1992	January 4, 1993	719.00	479.00
Uruguay	July 1, 1992	June 30, 1993	50.00	34.03
Extended arrangements			**12,188.55**	**5,962.35**
Argentina	March 31, 1992	March 30, 1995	2,149.25	1,857.09
Hungary	February 20, 1991	February 19, 1994	1,114.00	556.77
Mexico	May 26, 1989	May 25, 1993	3,729.60	466.20
Poland	April 18, 1991	April 17, 1994	1,224.00	1,147.50
Venezuela	June 23, 1989	March 22, 1993	3,857.10	1,851.50
Zimbabwe	September 11, 1992	September 10, 1995	114.60	83.30
SAF arrangements			**105.35**	**75.25**
Burkina Faso	March 13, 1991	March 12, 1994	22.12	15.80
Comoros	June 21, 1991	June 20, 1994	3.15	2.25
Ethiopia	October 28, 1992	October 27, 1995	49.42	35.30
Rwanda	April 24, 1991	April 23, 1994	30.66	21.90
ESAF arrangements			**2,037.30**	**785.03**
Bangladesh	August 10, 1990	September 13, 1993	345.00	28.75
Bolivia	July 27, 1988	September 15, 1993	163.26	13.61
Burundi	November 13, 1991	November 12, 1994	42.70	29.89
Guinea	November 6, 1991	November 5, 1994	57.90	40.53
Guyana	July 13, 1990	July 12, 1993	81.52	17.71
Honduras	July 24, 1992	July 23, 1995	40.68	33.90
Kenya	May 15, 1989	March 31, 1993	261.40	45.23
Lesotho	May 22, 1991	May 21, 1994	18.12	10.57
Malawi	July 15, 1988	May 31, 1993	66.96	5.58
Mali	August 28, 1992	August 27, 1995	60.96	50.80
Mozambique	June 1, 1990	September 30, 1993	100.65	30.50
Nepal	October 5, 1992	October 4, 1995	33.57	27.98
Sri Lanka	September 13, 1991	September 12, 1994	336.00	168.00
Tanzania	July 29, 1991	July 28, 1994	181.90	128.40
Togo	May 31, 1989	May 19, 1993	46.08	7.68
Zimbabwe	September 11, 1992	September 10, 1995	200.60	145.90
TOTAL			**20,164.22**	**10,604.71**

Note: Figures may not add to totals because of rounding.
Data: IMF Treasurer's Department

TABLE 2
IMF MEMBERS ELIGIBLE FOR ASSISTANCE UNDER THE ESAF

Afghanistan	Lesotho
Albania	Liberia
Angola	Madagascar
Bangladesh	Malawi
Benin	Maldives
Bhutan	Mali
Bolivia	Mauritania
Burkina Faso	Mongolia
Burma	Mozambique
Burundi	Nepal
Cambodia	Nicaragua
Cape Verde	Niger
Central African Republic	Nigeria
Chad	Pakistan
China, P.R. of	Philippines
Comoros	Rwanda
Cote d'Ivoire	St. Kitts and Nevis
Djibouti	St. Lucia
Dominica	St. Vincent
Dominican Republic	Sao Tome and Principe
Egypt	Senegal
Equatorial Guinea	Sierra Leone
Ethiopia	Solomon Islands
Gambia, The	Somalia
Ghana	Sri Lanka
Grenada	Sudan
Guinea	Tanzania
Guinea-Bissau	Togo
Guyana	Tonga
Haiti	Uganda
Honduras	Vanuatu
India	Viet Nam
Kenya	Western Samoa
Kiribati	Yemem
Lao P.D.R.	Zaire
	Zambia
	Zimbabwe

TABLE 3
CHANGE IN TERMS OF TRADE AND DEVELOPMENT ASSISTANCE IN SUB-SAHARAN AFRICA, BY COUNTRY, 1980-1990

	Terms of Trade 1990 (1980=100)	Annual Terms of Trade Loss/(Gain), 1990 ($US millions)	Annual Terms of Trade Loss/(Gain), 1990 % of 1990 GDP	Increase (Decrease) in Annual ODA, 1980-1990, 1989 Constant Dollars (millions)
Low-Income				
Burkina Faso	98	3	0.0	(31)
Central Afr. Rep.	94	8	0.6	54
Ghana	48	800	12.8	207
Kenya	75	344	3.9	449
Madagascar	85	59	1.9	(17)
Malawi	98	8	0.3	224
Mali	109	(29)	(1.2)	34
Mauritania	93	35	9.5	(58)
Niger	69	195	7.7	86
Nigeria	57	10,313	29.1	142
Rwanda	51	108	5.0	33
Sierra Leone	71	56	6.2	(73)
Tanzania	77	90	3.8	104
Togo	72	117	7.2	72
Uganda	55	124	4.1	415
Lower Middle-Income				
Cameroon	63	704	6.3	52
Congo	70	484	16.9	59
Cote d'Ivoire	62	1,594	16.1	305
Senegal	102	(15)	(0.3)	296
Upper Middle-Income				
Gabon	63	1,451	30.1	43

Notes and Sources

Terms of trade: Derived from UNCTAD, 1989, and World Bank, 1992a.
Terms of trade loss: 1990 export value (from World Bank, 1992a) multiplied by 100/terms of trade, 1990 (1980=100) (from previous column) minus 1990 export value.
Increase in ODA: Derived from OECD, 1991, page 213.
Export Volume growth rate: World Bank, 1992a.

From: G.K. Helleiner, "External Resource Flows, Debt Relief and Economic Development in Sub-Saharan Africa", paper presented at UNICEF Seminar on "Adjustment and Development in Sub-Saharan Africa", Florence, November 1992.

TABLE 4
THE IMF, THE WORLD BANK AND EXTERNAL TRANSFERS TO AFRICA, SOUTH OF THE SAHARA, 1980-90 ($US MILLIONS)

	1980	1983	1984	1985	1986	1987	1988	1989
IMF								
Gross disbursements[a]	1,217	1,618	952	738	735	678	1,033	865
Repayments and interest[b]	487	739	993	1,172	1,689	1,541	1,495	1,593
Net transfer	730	879	-41	-434	-954	-863	-462	-728
IDA								
Disbursements	424	637	778	881	1,400	1,681	1,697	1,700
Repayments and interest	21	44	56	79	94	111	128	126
Net transfer	403	593	722	802	1,306	1,570	1,569	1,574
The World Bank								
Disbursements	400	708	832	647	898	998	581	835
Repayments and interest	328	438	527	616	865	1,073	1,306	1,226
Net transfer	72	270	305	31	33	-75	-725	-391
IMF/IDA/World Bank Total net transfers	1,205	1,742	986	399	385	632	382	455
Other net transfers (Long-term debt):								
Multilateral[c]	707	664	442	487	650	709	672	607
Bilateral[c]	1,657	2,295	1,925	472	1,210	1,194	630	945
Private[d]	2,818	270	-1,667	-2,648	-1,132	-213	-434	-428
Total long-term debt and related net transfers	5,657	4,092	1,727	-856	2,067	3,185	1,712	2,307
Grants[e]	3,057	2,844	3,422	4,514	4,823	5,030	6,567	6,570
Direct foreign investment	20	882	494	1,059	460	1,167	687	2,301
TOTAL NET TRANSFERS	6,573	7,485	4,419	2,779	5,209	6,763	7,511	8,692

Notes and Source

a. Gross disbursements.
b. Repayments and interest.
c. Excluding grants.
d. Publicly guaranteed and unguaranteed, excluding director foreign investment.
e. Excluding technical assistance.

Source: G.K. Helleiner, 1992, "The IMF, the World Bank and Africa's Adjustment and External Debt Problems, An Unofficial View", World Development. Vol 20, No 6, June.

MAIN SOURCES AND REFERENCES

Elbadawi, I. A., 1992, 'Have World Bank - Supported Adjustment Programmes Improved Economic Performance in Sub-Saharan Africa', WPS 1001, Country Economics Department, World Bank

____, Ghura, D. and Uwujaren, G., 1992, 'Why Structural Adjustment Has Not Succeeded in Sub-Saharan Africa', WPS 1000, Country Economics Department, World Bank

Faini, R., de Melo, J., Senhadji-Semlai, A. and Stanton, J., 1989, 'Growth oriented adjustment programs', Centro Studi Luca d'Agliano/Queen Elizabeth House, Turin and Oxford

Green, R. H., 1992, # Political Economy of Drought # [you have the reference but add] (To be published in ..... [see letter from London Tropmed]

Helleiner, G. K., 1986, 'The question of conditionality' in Lancaster, C. and Williamson, J.

____, 1992a, 'The IMF, The World Bank and Africa's Adjustment and External Debt Problems', World Development, Vol. 20, No. 6

____, 1992b, 'External Resource Flows, Debt Relief and Economic Development in Sub-Saharan Africa', paper presented at UNICEF Seminar on 'Adjustment and Development in Sub-Saharan Africa', Florence, November

IMF - Annual Reports 1973 through 1976, 1981 through 1992.

Lancaster, C. and Williamson J. (eds), 1989, African Debt and Financing, Special Report 5, Institute for International Economics, Washington, D.C., esp. chapters by Helleiner and by Jaycox et al.

Mistry, P. S., 1991, 'African Debt: The Case for Relief for Sub-Saharan Africa' [check publisher I think FONDAD but Helleiner shows Oxford International Associates]

Ndulu, B., 1991, 'Growth and adjustment in Sub-Saharan Africa' in Chhibber, A. and Fischer, S. (eds), Economic Reform in Sub-Saharan Africa, World Bank

Polak, J. J., 1989, 'Strengthening the role of the IMF in the international monetary system' in Gwin, C., Pulling Together: The International Monetary Fund in a Multiplier World, Transaction Books, New Brunswick, New Jersey

Serven, L. and Solimano, A., 1990, 'Private investment and macroeconomic adjustment in LDCs: Theory, country implications', Macroeconomic Adjustment and Growth Division, Country Economics Department, World Bank

World Bank - World Economic Surveys 1990 through 1992.

____, 1991 - Poverty

____, 1981 - Accelerated Development

____, 1989 - Sub-Saharan Africa From Crisis to Sustainable Growth, A Long Term Perspective Study

____, 1990 - Adjustment Lending Policies for Sustainable Growth, Policy and Research Series, Country Economics Department