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Adjustment Programs in Africa
The Recent Experience

By Justin B. Zulu and Saleh M. Nsouli

International Monetary Fund
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Adjustment Programs in Africa: The Recent Experience

By Justin B. Zulu and Saleh M. Nsouli

with case studies by

Nur Calika and Lelde Schmitz

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The following symbols have been used throughout this paper:

. . . to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

– between years or months (e.g., 1979–81 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 1980/81) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

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Prefatory Note

This study was prepared by Justin B. Zulu, former Director of the African Department of the International Monetary Fund and currently Director of the Central Banking Department, and Saleh M. Nsouli, Division Chief in the Fund's African Department. The case studies on Somalia and Mali were prepared respectively by Nur Calika and Lelde Schmitz, both economists in the African Department.

The original draft of this study was prepared at the request of the African Center for Monetary Studies, Dakar, Senegal, and presented at the eighth meeting of the Association of African Central Banks, which was held in Arusha, Tanzania, in August 1983.

This paper has benefited from comments and suggestions from Fund staff members. However, opinions expressed are those of the authors and do not necessarily represent the views of the International Monetary Fund.

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I Introduction

This paper reviews recent experience of African countries in the design and implementation of adjustment programs supported by use of Fund resources.[1] The aggregate analysis covers primarily 1980 and 1981, while the case studies include results through the end of 1983. The paper is divided into seven parts. The first part outlines the economic background leading to the emergence or aggravation of financial imbalances in Africa before 1980. The second part reviews the role of the Fund in financing and adjustment. The third part examines the objectives of programs supported by use of Fund resources. Against this background, the fourth part analyzes the design of programs. The fifth part assesses the experience in implementing adjustment programs, with a view to determining the reasons for the difficulties that these countries encountered. The sixth part provides case studies of the recent adjustment programs of Somalia and Mali, which were supported by use of Fund resources. The conclusion summarizes the study's main findings.

Economic Background

The economic and financial problems facing African countries before 1980 were manifested in sluggish economic growth, rising inflation rates, and widening deficits on the current accounts of their balances of payments. Economic growth, which averaged about 5 percent during 1974–76, fell to about 2 percent during 1977–79. Accordingly, during this period, per capita real income declined. The rate of inflation, which picked up from about 10 percent in 1973 to an annual rate of about 16 percent during 1974–76, continued to increase, averaging more than 18 percent during 1977–79. The combined current account deficit rose from about US$4 billion in 1974 to about US$7 billion a year during 1975–77, and widened still further, reaching nearly US$10 billion annually during 1978–79. These deficits were, for the most part, financed by foreign borrowing, while countries attempted to contain the reduction in reserves in absolute terms. As a result, external debt increased dramatically. It rose from US$15 billion at the end of 1974 to US$45 billion at the end of 1979. The debt service ratio more than doubled, rising from 8.0 percent in 1974 to 16.6 percent in 1979 (Table 1). Even so, international reserves as a proportion of goods and services declined from 13.4 percent of annual imports in 1974 to 10.0 percent in 1979.

Contributory Factors

These deteriorating economic conditions reflected a number of external and domestic factors. During this period, the international economic and financial environment tended to affect African countries negatively. Following the sharp increase in oil prices in 1973–74, industrial countries experienced a sharp decline in economic activity accompanied by a substantial acceleration in the rate of inflation. These factors tended to reduce the demand for exports from African countries and to contribute to a softening in export prices, while prices of imports from industrial countries increased considerably. Furthermore, increases in oil prices directly affected the import bill of African countries. With a reduced demand for exports, declining terms of trade, and an inelastic demand for imports, African countries faced widening current account deficits. Some resorted to direct import restrictions, which resulted in shortages of consumer goods as well as intermediate and capital goods. The shortage of consumer goods tended to fuel domestic inflationary pressures, while the shortage of intermediate and capital goods contributed to a slowdown in economic activity.

The adverse international economic environment also affected domestic financial policies, which were not promptly adapted to the emerging situation. In particular, many countries were already embarked on ambitious public investment programs and were rapidly

[1] Unless otherwise noted, the countries discussed in this paper are those covered by the African Department of the International Monetary Fund. They exclude Egypt, the Socialist People's Libyan Arab Jamahiriya, Sudan, and South Africa. The paper does not attempt to draw a distinction between stand-by and extended arrangements. Rather, it focuses on the calendar year during which adjustment programs were implemented.

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Table 1. Africa: Selected Economic Indicators, 1973–83[1]

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
						(Percent)					
Economic growth	2.39	6.27	2.75	5.85	1.80	2.20	2.80	4.50	2.90	0.30	−1.40
Inflation	9.86	17.07	15.84	16.63	19.40	15.90	19.40	20.10	23.60	16.90	16.70
Terms of trade	8.30	7.63	−12.19	7.00	18.10	−8.70	2.40	−2.50	−4.30	−4.10	−5.60
Ratio of external debt to GDP	24.90	25.87	27.50	32.82	35.80	36.60	38.00	35.70	41.50	49.50	59.60
Debt service ratio	. . .	8.00	9.50	9.50	11.90	15.50	16.60	17.40	19.70	23.70	25.10
						(Billion U.S. dollars)					
Current account	−4.50	−4.00	−7.20	−6.50	−6.60	−9.40	−9.90	−12.90	−14.00	−12.50	−10.80
Net official transfers	1.10	1.50	1.70	2.00	2.30	2.50	2.90	3.30	3.30	3.20	3.30
Net capital inflows	3.80	2.60	4.90	4.40	5.00	6.40	6.60	8.40	8.40	7.90	5.70
Overall balance of payments	0.50	0.30	−0.60	−0.10	0.70	−0.40	−0.30	−1.20	−2.30	−1.40	−1.80
Total outstanding debt	11.60	14.75	18.40	23.40	30.80	36.90	45.30	50.90	55.50	62.50	66.30

Source: International Monetary Fund, *World Economic Outlook: A Survey by the Staff of the International Monetary Fund,* Occasional Paper No. 9 (Washington, April 1982); and Fund staff estimates.

[1] This table follows the Fund's *International Financial Statistics* classification of the African countries. These include all the African member countries, except Algeria, Egypt, Nigeria, and the Socialist People's Libyan Arab Jamahiriya, which are classified under different headings. In this table, South Africa is also excluded.

expanding government current expenditures. In a number of countries, improving prices of primary products in the late 1960s and early 1970s had contributed to an increase in government revenues and export proceeds that allowed for such expansion. With the tapering off in demand for such exports and the decline in the terms of trade, budgetary receipts started to lag behind the growth in expenditures. This led to a widening in budgetary deficits, which were increasingly financed by domestic bank borrowing and external borrowing. The expansion in credit to the government sector, accompanied in some instances by an accommodating stance on credit to the private sector, increased the pressures on domestic prices and the balance of payments.

Rather than dealing with the roots of the problems, countries generally focused on their symptoms. Price controls were intensified, consumer subsidies were increased, producer prices were kept low, and administrative controls on imported goods were widened in scope. Many countries also retained exchange rates that were incompatible with financial stability. Under the circumstances, parallel markets for goods and foreign exchange widened, generating considerable distortions and slowing down economic activity.

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II The Role of the Fund

In view of mounting economic and financial imbalances, a number of African countries worked closely with the Fund to design and carry out appropriate adjustment programs during 1980–81.[2] At the beginning of 1980 there were 12 stand-by arrangements. The total amount approved under these arrangements was equivalent to SDR 455.2 million. Several arrangements expired and new arrangements were approved during 1980. At the beginning of 1981 there were 11 stand-by and 3 extended arrangements for a total of SDR 1.8 billion. With the increase in extended arrangements and the approval of new stand-by arrangements in 1981, the numbers of stand-by and extended arrangements in effect at the end of 1981 were 13 and 6, respectively, with the total amount committed reaching a record SDR 4.3 billion. Purchases nearly doubled in 1980 and more than doubled in 1981, reaching a record SDR 1.7 billion (Tables 2 and 3).

The number of African countries that adopted adjustment programs supported by use of Fund resources during this period was relatively limited. Many, however, resorted to financing rather than adjustment. This was reflected in a sharp increase in debt servicing. It is, therefore, essential to review the difference between financing and adjustment, and, in this regard, the role of the Fund in the adjustment process.

Adjustment Versus Financing

When a country faces an external sector disequilibrium, this is manifested in a rise in its current account deficit, requiring it to resort to increased external borrowing to finance the disequilibrium. If the disequilibrium resulted from permanent factors and if a country were not to take the necessary measures to adjust, this *financing* would have to continue indefinitely. As the external debt rises, a country would eventually reach a point where its ability to service the debt would be impaired, undermining its creditworthiness. Under such conditions a country would lose its ability to continue to finance an external sector disequilibrium. Failure to adjust would force a country to impose strict controls on imports. The resulting import shortage would exacerbate underlying inflationary pressures. In developing countries that depend heavily on imported intermediate manufactured and capital goods, import controls would cause economic activity and investment to suffer and lead to a sharp fall in economic growth.

Thus, financing alone will not solve a disequilibrium. Financing only magnifies and postpones dealing with the problem and, in due course, leads to a greater disruption of the economy than if adjustment were undertaken promptly. Accordingly, the choice is not between adjustment and financing but between promptly initiating a gradual and orderly adjustment process, on the one hand, or being faced with abrupt and disorderly adjustment, on the other. The costs to the economy are too high in the latter case, in terms of the rising debt burden, the emergence of large distortions, and the abrupt shock to the economy when financing ceases. Yet many African countries followed the latter path. The role of the Fund is to avoid such disruptions and minimize the costs of adjustment by providing, preferably at an early stage, the necessary financing to ensure a smooth and gradual process of adjustment.

Duration of Adjustment

From the short survey of the economic problems facing African countries, it is clear that the extent of the imbalances has increased, requiring a more concerted adjustment effort. The Fund has recognized that the deep-seated structural problems and the magnitude of these imbalances require longer periods of adjustment. The question of the length of time over which adjustment should take place, other things being equal, is crucial. If a very short time period is set for attaining equilibrium, adjustment could prove costly to a country, because it would require a rapid deflation of the economy. At the other extreme, stretching out

[2] See Guitián (1981), Kanesa-Thasan (September 1981), Makalou (1982, 1983), and Nsouli (1982).

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Table 2. Africa: Stand-By Arrangements and Arrangements Under Extended Fund Facility, 1979–83

(In millions of SDRs)

	Stand-By (SBA) and Extended Facility (EFF)	Date of Approval	Expiration Date	Amount Approved	Amount Purchased [1]	Undrawn Balance
1979						
Congo	SBA	April 25, 1979	April 24, 1980	4.00	2.00	2.00
Egypt	EFF	July 28, 1978	June 30, 1980	425.00	75.00	350.00
Gambia, The	SBA	Nov. 2, 1979	Nov. 1, 1980	1.60	—	1.60
Ghana	SBA	Jan. 10, 1979	Jan. 9, 1980	53.00	32.00	21.00
Kenya	SBA	Aug. 20, 1979	Aug. 19, 1981	122.48	—	122.48
Liberia	SBA	March 21, 1979	March 20, 1980	9.25	9.25	—
Malawi	SBA	Oct. 31, 1979	Dec. 31, 1981	26.34	3.06	23.28
Mauritius	SBA	Oct. 31, 1979	Oct. 30, 1981	73.03	20.00	53.03
Rwanda	SBA	Oct. 31, 1979	Oct. 30, 1980	5.00	—	5.00
Senegal	SBA	March 30, 1979	March 29, 1980	10.50	10.50	—
Sierra Leone	SBA	Nov. 2, 1979	Nov. 1, 1980	17.00	7.50	9.50
Sudan	EFF	May 4, 1979	June 30, 1980	200.00	30.00	170.00
Togo	SBA	June 11, 1979	Dec. 31, 1980	15.00	—	15.00
Zaïre	SBA	Aug. 27, 1979	Feb. 26, 1981	118.00	20.00	98.00
Total				1,080.20	209.31	870.89
Total (excluding Egypt and Sudan)				**455.20**	**104.31**	**350.89**
1980						
Central African Republic	SBA	Feb. 15, 1980	Feb. 14, 1981	4.00	4.00	—
Egypt	EFF	July 28, 1978	June 30, 1980	425.00	75.00	350.00
Equatorial Guinea	SBA	July 1, 1980	June 30, 1981	5.50	3.00	2.50
Gabon	EFF	July 27, 1980	Dec. 31, 1982	34.00	—	34.00
Kenya	SBA	Oct. 15, 1980	Oct. 14, 1982	241.50	60.00	181.50
Liberia	SBA	Sept. 15, 1980	Sept. 14, 1982	65.00	18.40	46.60
Madagascar	SBA	June 27, 1980	June 26, 1982	64.50	10.00	54.50
Malawi	SBA	May 9, 1980	March 31, 1982	49.90	22.00	27.90
Mauritania	SBA	July 23, 1980	March 31, 1982	29.70	8.90	20.80
Mauritius	SBA	Sept. 5, 1980	Sept. 4, 1981	35.00	15.00	20.00
Morocco	EFF	Oct. 8, 1980	Oct. 7, 1983	810.00	147.00	663.00
Senegal	EFF	Aug. 8, 1980	Aug. 7, 1981	184.80	41.10	143.70
Somalia	SBA	Feb. 27, 1980	Feb. 26, 1981	11.50	6.00	5.50
Sudan	EFF	May 4, 1979	May 3, 1982	427.00	151.00	276.00
Tanzania	SBA	Sept. 15, 1980	June 30, 1982	179.60	25.00	154.60
Zaïre	SBA	Aug. 29, 1979	Feb. 26, 1981	118.00	98.40	19.60
Total				2,685.00	684.80	2,000.20
Total (excluding Egypt and Sudan)				**1,833.00**	**458.80**	**1,374.20**
1981						
Ethiopia	SBA	May 8, 1981	June 30, 1982	67.50	44.00	23.50
Gabon	EFF	June 27, 1980	Dec. 31, 1982	34.00	—	34.00
Ivory Coast	EFF	Feb. 27, 1981	Feb. 22, 1984	484.50	176.70	307.80
Kenya	SBA	Oct. 15, 1980	Oct. 14, 1982	241.50	90.00	151.50
Liberia	SBA	Aug. 26, 1981	Sept. 15, 1982	55.00	33.00	22.00
Madagascar	SBA	April 13, 1981	June 26, 1982	109.00	39.00	70.00
Malawi	SBA	May 9, 1980	March 31, 1982	49.90	40.00	9.90
Mauritania	SBA	June 1, 1981	March 31, 1982	25.80	10.30	15.50
Mauritius	SBA	Dec. 21, 1981	Dec. 20, 1982	30.00	7.50	22.50
Morocco	EFF	March 9, 1981	Oct. 7, 1983	817.10	136.50	680.60
Senegal	SBA	Sept. 11, 1981	Sept. 10, 1982	63.00	15.70	47.30
Sierra Leone	EFF	March 30, 1981	Feb. 22, 1984	186.00	33.50	152.50
Somalia	SBA	July 15, 1981	July 14, 1982	43.10	25.90	17.20
Sudan	EFF	May 4, 1979	May 3, 1982	427.00	251.00	176.00
Tanzania	SBA	Sept. 15, 1980	June 30, 1982	179.60	25.00	154.60
Togo	SBA	Feb. 13, 1981	Feb. 12, 1983	47.50	7.25	40.25
Uganda	SBA	June 5, 1981	June 30, 1982	112.50	77.50	35.00
Zaïre	EFF	June 22, 1981	June 21, 1984	912.00	175.00	737.00
Zambia	EFF	May 8, 1981	May 7, 1984	800.00	300.00	500.00
Zimbabwe	SBA	April 8, 1981	April 7, 1982	37.50	37.50	—
Total				4,722.50	1,525.35	3,197.15
Total (excluding Sudan)				**4,295.50**	**1,274.35**	**3,021.15**

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Table 2. *(concluded)* Africa: Stand-By Arrangements and Arrangements Under Extended Fund Facility, 1979–83

(In millions of SDRs)

	Stand-By (SBA) and Extended Facility (EFF)	Date of Approval	Expiration Date	Amount Approved	Amount Purchased [1]	Undrawn Balance
1982						
Gambia, The	SBA	Feb. 22, 1982	Feb. 21, 1983	16.90	16.90	—
Guinea	EFF	Feb. 27, 1981	Feb. 22, 1984	484.50	292.14	192.36
Ivory Coast	SBA	Dec. 1, 1982	Nov. 30, 1983	25.00	11.50	13.50
Kenya	SBA	Jan. 8, 1982	Jan. 7, 1983	151.50	90.00	61.50
Liberia	SBA	Sept. 29, 1982	Sept. 28, 1983	55.00	5.00	50.00
Madagascar	SBA	July 9, 1982	July 8, 1983	51.00	30.60	20.40
Malawi	SBA	Aug. 6, 1982	Aug. 5, 1983	22.00	10.00	12.00
Mali	SBA	May 21, 1982	May 20, 1983	30.40	25.40	5.00
Morocco	SBA	April 26, 1982	April 25, 1983	281.30	196.90	84.40
Senegal	SBA	Nov. 24, 1982	Nov. 23, 1983	47.30	6.00	41.30
Somalia	SBA	July 15, 1982	Jan. 14, 1984	60.00	15.00	45.00
Sudan	SBA	Feb. 22, 1982	Feb. 21, 1983	198.00	70.00	128.00
Togo	SBA	Feb. 13, 1981	Feb. 12, 1983	47.50	7.25	40.25
Uganda	SBA	Aug. 11, 1982	Aug. 10, 1983	112.50	50.00	62.50
Total				1,582.90	826.69	756.21
Total (excluding Sudan)				**1,384.90**	**756.69**	**628.21**
1983						
Central African Republic	SBA	April 22, 1983	April 21, 1984	18.00	4.50	13.50
Ghana	SBA	Aug. 3, 1983	Aug. 2, 1984	238.50	143.10	95.40
Ivory Coast	EFF	Feb. 27, 1981	Feb. 22, 1984	484.50	446.00	38.50
Kenya	SBA	March 21, 1983	Sept. 20, 1984	175.95	129.80	46.15
Liberia	SBA	Sept. 14, 1983	Sept. 13, 1984	55.00	28.00	27.00
Malawi	EFF	Sept. 19, 1983	Sept. 18, 1986	100.00	10.00	90.00
Mali	SBA	Dec. 9, 1983	May 31, 1985	40.50	10.00	30.50
Mauritius	SBA	May 18, 1983	Aug. 17, 1984	49.50	24.75	24.75
Morocco	SBA	Sept. 16, 1983	March 15, 1985	300.00	30.00	270.00
Niger	SBA	Oct. 5, 1983	Dec. 4, 1984	18.00	6.80	11.20
Senegal	SBA	Sept. 19, 1983	Sept. 18, 1984	63.00	31.50	31.50
Somalia	SBA	July 15, 1982	Jan. 14, 1984	60.00	51.25	8.75
Sudan	SBA	Feb. 23, 1983	Feb. 22, 1984	170.00	144.50	25.50
Togo	SBA	March 4, 1983	April 3, 1984	21.40	19.41	1.99
Uganda	SBA	Sept. 16, 1983	Sept. 15, 1984	95.00	44.00	51.00
Zaïre	SBA	Dec. 27, 1983	March 26, 1985	228.00	—	228.00
Zambia	SBA	April 18, 1983	April 17, 1984	211.50	76.50	135.00
Zimbabwe	SBA	March 23, 1983	Sept. 22, 1984	300.00	97.50	202.50
Total				2,628.85	1,297.61	1,331.24
Total (excluding Sudan)				**2,458.85**	**1,153.11**	**1,305.74**

Source: International Monetary Fund, Treasurer's Department.
[1] Cumulative purchases under the arrangement from date of approval.

the adjustment period indefinitely would avoid dealing with the problem and result in a situation very close to that of pure financing. Between these two extremes, there is an optimal trajectory defining a time span that will minimize the economic costs of adjustment. Although in practice it is extremely difficult to determine such a trajectory with any significant degree of precision, every Fund-supported program attempts to place the economy concerned on such a trajectory, within the constraints of available information.[3] Because in many developing countries the lack of foreign exchange may impede the country from following such an optimal adjustment path, the Fund can provide and help mobilize the necessary financing. It is these considerations that underlie the repeated emphasis by the Fund's Managing Director that financing and adjustment must go hand-in-hand.

The guidelines on conditionality, which were reformulated in 1979, emphasize that there is a need to encourage members to adopt corrective measures at an early stage of their balance of payments difficulties; that, in many cases, periods of adjustment longer than those normally associated with one- or two-year stand-

[3] For a discussion of the relative income costs of adjustment of different trajectories defined by various policy approaches, see Nsouli and Ishiyama (1979).

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Table 3. Africa: Purchases and Repurchases from the Fund, 1979–83

(In millions of SDRs)

	1979		1980		1981		1982		1983	
	Purchases	Repurchases [1]	Purchases	Repurchases [1]	Purchases	Repurchases [1]	Purchases	Repurchases [1]	Purchases	Repurchases [1]
Benin	—	—	1.94	—	—	—	—	—	1.80	—
Burkina Faso	—	—	—	—	—	—	—	—	—	—
Burundi	9.50	—	—	—	—	—	—	—	—	4.80
Cameroon	—	11.39	—	12.85	—	8.48	—	2.95	3.00	0.50
Central African Republic	—	2.38	5.85	4.39	17.00	3.07	2.40	0.60	5.70	0.30
Chad	—	1.24	—	2.18	7.10	5.43	—	—	3.30	—
Comoros	—	—	0.48	0.48	0.30	—	—	—	—	—
Congo	2.00	1.14	—	5.34	—	6.75	—	—	3.30	—
Djibouti	—	—	—	—	—	—	—	—	—	—
Egypt	—	51.22	—	78.93	—	77.92	47.03	43.92	—	2.70
Equatorial Guinea	—	0.24	9.53	—	7.20	0.85	1.26	1.27	1.40	—
Ethiopia	36.00	—	—	—	66.10	—	23.50	2.25	—	18.00
Gabon	7.50	—	—	—	—	—	—	1.99	—	7.50
Gambia, The	—	3.52	1.60	—	9.00	—	16.90	2.24	0.90	2.60
Ghana	44.63	22.93	—	9.65	—	9.65	8.47	4.83	275.00	15.40
Guinea	2.97	4.40	—	1.10	0.58	5.01	15.91	4.57	4.70	—
Guinea-Bissau	1.10	—	—	—	2.35	—	—	0.28	0.40	0.40
Ivory Coast	—	—	12.22	—	328.70	—	115.43	—	167.80	—
Kenya	86.25	30.59	60.00	6.98	30.00	7.17	150.38	16.89	132.60	43.00
Lesotho	—	—	—	—	—	—	2.02	—	—	—
Liberia	29.75	—	18.40	2.40	47.54	2.16	64.41	—	62.00	10.30
Madagascar	—	3.73	39.20	1.51	39.00	7.43	57.73	5.39	15.20	3.70
Malawi	22.07	0.76	24.38	0.93	30.00	.36	14.69	12.62	34.20	10.30
Mali	—	1.75	5.10	2.25	—	2.25	25.38	1.06	17.60	1.80
Mauritania	—	0.89	19.40	6.71	10.30	6.94	18.76	3.69	2.10	4.40
Mauritius	27.97	—	35.00	—	68.00	11.00	28.01	5.49	31.60	14.50
Morocco	—	23.20	184.50	67.35	192.76	53.40	433.28	32.50	134.80	23.30
Niger	—	—	—	—	—	—	—	—	30.80	—
Nigeria	—	—	—	—	—	—	308.71	—	77.40	—
Rwanda	—	—	—	—	—	—	—	—	—	—
São Tomé and Principe	—	—	—	—	—	—	—	—	—	—
Senegal	14.75	8.74	43.25	6.36	57.74	6.36	53.17	13.33	37.00	10.50
Seychelles	—	—	—	—	—	—	—	—	0.70	—
Sierra Leone	7.50	7.27	9.50	9.22	33.70	9.22	5.13	5.28	23.60	2.00
Somalia	—	—	6.00	—	25.88	—	37.00	4.75	47.40	—
Sudan	83.15	33.70	142.80	34.70	165.55	19.03	71.85	30.15	193.00	41.60
Swaziland	—	—	—	—	—	—	4.28	—	10.00	—
Tanzania	34.00	13.03	40.00	25.03	15.90	26.34	1.74	11.12	6.10	25.10
Togo	—	—	16.58	—	7.25	—	—	—	21.90	—
Tunisia	—	—	—	24.00	—	—	—	—	—	—
Uganda	10.58	8.00	37.50	10.00	122.50	10.31	85.00	1.51	112.70	11.90
Zaïre	20.00	31.47	78.40	65.45	194.60	103.78	131.61	22.07	130.30	10.40
Zambia	100.00	26.29	50.00	44.03	359.30	47.32	41.50	86.20	188.40	113.60
Zimbabwe	—	—	32.49	—	37.50	—	—	—	153.60	—
Total	539.72	287.88	874.12	421.84	1,875.85	436.23	1,765.55	316.95	1,940.30	378.60
Total (excluding Egypt and Sudan)	**456.57**	**202.96**	**731.30**	**308.21**	**1,710.30**	**339.28**	**1,646.67**	**242.88**	**1,747.30**	**334.30**

Source: International Monetary Fund, *International Financial Statistics*.

[1] Repurchases include only those relating to outstanding purchases.

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by arrangements are required; that a flexible approach to the treatment of external borrowing in adjustment programs needs to be adopted; and that due regard has to be given to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems. Within these general guidelines, considerable flexibility in applying conditionality has been maintained. Greater emphasis has also been given to providing increased financing to countries over sufficiently long time periods, while formulating programs that pay considerable attention to supply-oriented policies, which meet the development aspirations of developing countries and which reduce the burden of adjustment.[4] These considerations are fully reflected in the programs adopted by the African countries during 1980–81.

[4] See Guitián (1981), Makalou (1982, 1983), and Nsouli (1982).

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III The Objectives of Programs

The general objectives of adjustment programs supported by use of Fund resources are summarized in the Fund's Articles of Agreement. These objectives include:

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

> . . . to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. (Article I, Sec. vi)

While the Fund provides resources in support of policies designed to carry out an appropriate adjustment program, a primary concern of African countries that adopted programs supported by use of Fund resources was the achievement of a sustainable level of economic growth. The key to such sustainability, however, was the achievement of domestic and external financial stability. If a country had high levels of domestic inflation, reflecting excess demand pressures, savings and investment would be discouraged, leading to a drop in economic growth. Similarly, if a country faced continuous external imbalances, the ensuing shortage of foreign exchange could result in a curtailment of important imported inputs and capital goods; in addition, the distortions arising from a disequilibrium exchange rate could undermine both the export- and import-competing industries. The sustainability of economic growth thus also would be impaired. Accordingly, in the design of these programs, an important prerequisite for a sustainable rate of economic growth was the achievement of domestic and external financial stability.

Domestic and external financial stability are interrelated. A high rate of inflation reflects excess demand pressures, which are also manifested in the external sector. Similarly, a low rate of inflation cannot be sustained indefinitely with an external deficit because, in due course, the inflow of goods and services would have to be curtailed, leading to an acceleration in inflation. Hence, if a sustainable external financial position is reached, it follows that a sustainable position of domestic financial stability has also been reached. This interrelationship is further seen in the fact that a country's current account position is the mirror image of, and is definitionally equal to, the difference between domestic investment and national savings.

The countries under consideration had external current account deficits that were symptomatic of the fact that domestic investment far exceeded national savings. These deficits were generally financed by foreign borrowing. Such an external position did not, in itself, imply that the external position was not sustainable. That depended on the magnitude of the underlying variables. A current account deficit can reflect either a high level of consumption or a high level of investment. If foreign borrowing is used to finance consumption, the productive capacity of the economy will not necessarily increase sufficiently to service the debt. In contrast, if the borrowing is used to finance investment, and the marginal return is equal to or exceeds the cost of borrowing, the current account deficit can become sustainable if other conditions are met. The following definition can be used: A sustainable external sector position denotes a current account position associated with a consumption and investment pattern that is consistent with the growth of debt-servicing capacity.

In most of the programs under consideration, accordingly, the three basic and interrelated objectives were generally to promote economic growth, to reduce inflation, and to improve the current account position over the medium term. Chart 1[5] shows the emphasis given to economic growth in the programs under consideration. Most programs aimed for an increase in economic growth during the program year as compared with the previous year. Nearly all programs attempted to hold annual inflation to about 15 percent. However, as shown in Chart 2, nearly the same number of programs allowed for an increase in inflation over the previous year as programs that tried to reduce inflation. This may have reflected a certain degree of realism as to how much, if at all, inflationary pressures

[5] Charts 1–14 are in Appendix I.

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could be controlled in one year, particularly if cost-push elements were relatively important determinants.

Although all programs did not attempt in one year to narrow the current accounts (Chart 3) or, for that matter, overall balance of payments positions (Chart 4), the emphasis generally was on improving these indicators. In supply-oriented programs, in particular, an expanded level of investment financed by external assistance could involve an increase in associated imports, which would contribute to a short-term widening of the current account deficit. Such investment could be viewed, however, as contributing to the productive capacity of the economy and as encouraging increased exports or reduced imports over the medium term.

In sum, these diverse quantitative targets for the key objectives confirm that Fund-supported programs have tailored adjustment to the particular circumstances of the country.

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IV Instruments and Policy Design

Although there is general agreement on the objectives, each program is designed differently. There is no such thing as a "typical" Fund-supported adjustment program, although many articles have been written attempting to describe such programs by pointing out the commonality of objectives and instruments. The objectives and instruments, however, are limited and are clearly common to most countries. A program involves setting specific quantitative objectives and selecting the proper mix of instruments as well as deciding the degree to which each instrument will be used. In this sense, because no two countries share the same economic conditions, no two Fund-supported programs are alike. Each program addresses the specific problems of the country concerned, takes into account the macroeconomic relationships imposed by the institutional framework, and sets the quantitative targets for the instruments selected.

With these caveats in mind, it is possible to discuss in general the policy areas that recent Fund-supported programs in Africa covered. Because the problems of these countries are deep-rooted and structural, the policies emphasized supply-oriented measures designed to bring about structural changes. At the same time, financial policies were designed to reinforce the supply-oriented measures.[6]

Domestic Structural Policies

Because economic growth depends largely on the level of domestic capital formation, provided that investment is allocated efficiently, the programs incorporated measures to strengthen the development planning process. In this regard, the Fund relied mostly on the expertise of the World Bank. In addition, with a view to improving resource allocation, mobilizing domestic savings, and encouraging private sector investment, the programs paid close attention to pricing policies. Many of the countries maintained extensive systems of price controls and subsidies. Such policies temporarily masked inflationary pressures, led to shortages, and contributed to a misallocation of resources. Furthermore, to the extent that low agricultural producer prices were maintained, agricultural production suffered. To mitigate the impact of price controls and subsidies on the economy, the programs attempted to deal with the roots of inflationary pressures, namely the imbalances between demand and supply.

As can be seen from Chart 5, in the programs under consideration, close attention was paid to maintaining or increasing the ratio of savings to gross domestic product (GDP). In some countries, this ratio was expected to decline, owing in many instances to an expected reduction in "enforced" savings that resulted from liberalized trade. In contrast, investment ratio targets, compared with the previous year, show a wider dispersion (Chart 6). In some countries, an immediate increase in investment would have contributed to expanded production and, hence, supply-oriented adjustment. In others, however, investment was pushing against the limits of the absorptive capacity of the country and/or was contributing to a rapid accrual of external debt. In such countries, the programs aimed at containing investment to more realistic levels.

In most of the countries, public sector enterprises played an important role in production. The rationale for these enterprises was that, at the early stages of economic development, the private sector was not in a position to undertake a number of economic functions. Over the years, public enterprises in several countries incurred substantial losses, which were borne directly or indirectly by the central government budget. In the context of a number of these programs, the authorities reviewed carefully the operations of public enterprises. Invariably there was a consensus that these enterprises have to operate efficiently. Their operations were, in a number of cases, streamlined. In other cases, where the public enterprises were not considered viable on efficiency grounds, their operations were phased out. Clearly, public enterprises could not be judged solely on the grounds of profitability, as a number of these enterprises provided vital social

[6] See Makalou (1982, 1983) and Nsouli (1982).

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services. However, the costs for such services should be specifically provided for in the budget; profit-oriented public enterprises should not be called upon to perform such a role. In setting up adjustment programs, the Fund has assisted the authorities in focusing on the implications of the position of public enterprises for production and financial management.

The government sector, through both its current and capital operations, has played a dominant role in the economies of most African countries. In many of the countries, revenues did not fully cover expenditures. Consequently, the governments resorted to domestic and foreign borrowing to finance their budgetary deficits. Financial stability could not be restored without first tackling the excessive expansionary impact of fiscal policy. Fund-supported programs, therefore, devoted considerable attention to measures which could improve the fiscal positions.

On the revenue side, a number of programs included tax measures designed to expand the domestic revenue base and increase the elasticity of the tax system. Improvements in tax collection procedures in most countries also contributed considerably to higher revenues. On the expenditure side, the emphasis was on limiting the growth in current expenditures by strengthening administrative expenditure controls, reducing new government hiring, restraining salary adjustments, and reducing the expansion in real administrative expenditures. Capital expenditures generally were assessed against the availability of resources and carried out within the context of the macroeconomic framework of the development plan.

Fiscal Policies

The thrust of fiscal policy in Fund-supported programs in Africa can be seen in Charts 7–9. Most countries set a goal of increasing the proportion of government revenue (excluding foreign grants) to GDP. However, where economic conditions did not allow for an immediate increase in the program year, the revenue ratio was expected to drop (Chart 7). In most of the countries, the domestic revenue ratio was under 25 percent, but the ratio of expenditure to GDP was generally in excess of 25 percent. Accordingly, while in a few programs the expenditure ratio was targeted to increase, there was invariably an attempt to bring about a reduction in the ratio of expenditures to GDP (Chart 8). Because of the attempt to increase revenues and contain expenditures, nearly all programs aimed at reducing the ratio of the government deficit (excluding grants) to GDP (Chart 9).

In many of the countries, monetary policies critically depended on fiscal developments; the expansion of domestic credit generally was contingent upon the level of credit used by the central government to finance the budgetary deficit. The flexibility in conducting monetary policy, therefore, was generally limited to controlling credit to the private sector to offset partially the impact of the expansion in credit to the government sector. Not surprisingly, the government sector, in certain instances, tended to crowd out the private sector. As a result, the private sector was unable to secure adequate credit to carry out its activities. A more restrained fiscal policy stance would generally allow the monetary authorities to follow a more flexible credit policy toward the private sector and help promote economic growth.

Monetary Policies

Charts 10–13 show the diversity of monetary policies under Fund-supported programs. Nearly as many programs allowed for a higher rate of net credit growth to the government as allowed for a lower rate (Chart 10). However, in countries where credit to the private sector had grown at about 10 percent or less in the previous year—and these constituted the majority of the program countries—the programs tried to increase the growth rate of private sector credit. This was broadly reflected in the overall net domestic credit growth target. Generally, countries that had a net credit expansion in excess of 20 percent in the preceding year planned to reduce that to about 20 percent or less. Those with a rate of less than 20 percent aimed for an expansion rate greater than in the previous year. The domestic liquidity growth targets, reflecting the interdependent targets of domestic credit growth and changes in net foreign assets, do not allow for any significant generalizations; the rate of growth was expected to increase and decrease in nearly the same number of countries (Chart 13).

Within the context of monetary policy, the interest rate structure plays an important role in domestic resource allocation, the process of financial intermediation, the promotion of domestic savings, and the level of investment. The tendency has been, in many of these countries, to follow a low interest rate policy. This adversely affected their economies, because it tended to result in misallocation of resources and in financial disintermediation. In the context of high international interest rates, low interest rate policies may have resulted in a tendency for outward capital flows and a failure to attract private sector capital from abroad, although, admittedly, private capital flows depend on factors besides the interest

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rate. In formulating programs, the interest rate policy was reviewed to determine the most appropriate interest rate structure. In numerous programs, domestic interest rates were revised.

External Sector Policies

With regard to external sector policies, the programs focused on three main issues: restrictions on current international transactions, the exchange rate policy, and external debt. Restrictions on international current transactions are usually implemented because of imbalances that have led to shortages of foreign exchange at the prevailing exchange rate. The detrimental effects of such restrictions have already been discussed. Their phased removal, as imbalances declined, was an important element of the programs under consideration.

The exchange rate is one of the important instruments that can aid in the adjustment process. An inappropriate exchange rate generates cost-price distortions that have a negative effect on the consumption-investment mix as well as on the export-import mix and tends to reduce the profitability of export- and import-competing activities in the country. Such factors are detrimental to economic growth. The appropriateness of the exchange rate level, therefore, was carefully reviewed in the context of the programs under consideration.

Several countries took steps to adjust exchange rates. Those that took such action supported it with appropriate financial and economic policies to reinforce its contribution to the adjustment process. Somalia, for example, devalued its currency by 150 percent in domestic currency terms during 1981–82. Uganda also devalued its currency by about 100 percent over the period May 1981–June 1982. Both Somalia and Uganda introduced dual exchange rate systems on a temporary basis.

Given the importance of external borrowing for achieving a sustainable external debt position, Fund-supported programs aimed at containing the debt burden at levels compatible with the debt-servicing capacity of the country. In countries that had accumulated external payments arrears, the programs provided for the gradual elimination of these arrears. As can be seen from Chart 14, most programs attempted to avoid a significant increase in the ratio of external debt to GDP.

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V Performance Under Programs

Performance under programs is difficult to assess insofar as the assessment depends on the yardstick selected. Guitián (1981) discusses the problem in detail, focusing on three yardsticks: (1) the performance that would have been achieved without a program; (2) the performance in the previous year or series of previous years; and (3) the targets of the programs.

The first yardstick is essentially a hypothetical situation, about which it would be hard to reach a consensus. The second yardstick addresses mainly the question of whether there has been an improvement or deterioration from the previous year or years. The third assesses the performance against the targets of the program. Without entering into a detailed discussion of the relative merits of the yardsticks, in this part we shall assess the performance of countries against two yardsticks: (1) the targets of the program, and (2) the previous year's performance.

These quantitative yardsticks are not sufficiently adequate in giving an idea of the contribution to adjustment of the measures taken. A number of measures tend to improve economic conditions only gradually, so that their effect can only be fully realized over the medium and long term. Other measures tend to bring about important qualitative changes—such as the removal of bottlenecks or the enhancement of financial intermediation—that are not easily measurable. Furthermore, there are numerous other factors at work so that it is, at times, difficult to isolate the positive effects of measures taken. Accordingly, the analysis that follows should be cautiously interpreted.

Achievements Versus Targets

Charts 1a–14a[7] provide an idea of the achievements compared with the targets. The results generally indicate that in many cases the performance fell short of targets. In most countries, economic growth was below target levels, although there are a number of exceptions where the performance exceeded the targets (Chart 1a). Results on reducing inflation, as measured by the consumer price index, were mixed. Nevertheless, most countries were close to targets and succeeded in keeping inflation below 20 percent (Chart 2a). Most countries fell short of achieving the targeted improvement in their current account positions as a proportion of GDP, as can be seen from Chart 3a. About half of the countries met their goal with respect to the overall balance of payments position as a proportion of GDP. Thus, as far as the objectives of programs are concerned, there was generally a shortfall in economic growth, inflation targets were attained or nearly attained in most programs, and the external sector current account targets were achieved in about a third of the cases.

Turning to policy indicators, the ratios of savings and investment to GDP were generally close to targets.[8] With regard to fiscal policy, revenues (excluding grants) as a proportion of GDP were, in most cases, close to target. However, the ratio of expenditure (excluding grants) to GDP was generally exceeded. Because of this, in most countries the budgetary deficit (excluding grants) as a proportion of GDP was considerably exceeded. The rate of growth of net credit to the government, accordingly, generally did not conform to targets. Furthermore, credit to the private sector was exceeded in numerous cases. Reflecting these developments, net domestic credit growth exceeded the targets in about half the countries. In most, domestic liquidity growth was, therefore, considerably above target. Insofar as external debt is concerned, the data indicate that nearly all countries exceeded the targets.

Achievements Versus Previous Year

Given these deviations from targets, Charts 1b–14b[9] show how countries performed relative to the previous year. In terms of economic growth, there was a considerable improvement in a number of countries

[7] Charts 1a–14a are in Appendix II.

[8] The dots on the zero point of the target axis in the charts indicate that no targets were set.

[9] Charts 1b–14b are in Appendix III.

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but a decline in most. Inflation worsened in just over half the countries. In the external sector, neither the current account position nor the overall balance of payments as a ratio of GDP appears to have improved or worsened significantly in most countries.

With regard to policy indicators, there were no major changes in the savings and investment ratios. Government revenue as a ratio to GDP increased in most countries, while government expenditure as a ratio to GDP remained unchanged or declined in most countries. Accordingly, the budgetary position (excluding grants) improved in the majority of cases. On the monetary front, net credit growth to the government sector remained about the same as the previous year or declined in most cases. Credit growth to the private sector for most countries, however, was nearly equal to or exceeded the previous year's rates. Overall net domestic credit expansion was mostly nearly equal to or less than the previous year's. Chart 13b suggests that, in most cases, domestic liquidity increased at a faster rate. The external debt ratio as a proportion of GDP increased for virtually all countries.

From these diverse results it is hard to generalize whether in a one-year period there was an improvement or deterioration in the economic situation of the countries adopting Fund-supported programs. The results seem to be almost evenly divided. It is, therefore, essential to examine the reasons for these deviations. Table 4 provides information on objectives, as indicated by economic growth, inflation, and the current account position, as well as on two key financial policy instruments—the budgetary deficit (excluding grants) as a proportion of GDP and the rate of growth of net domestic credit. Table 4 shows a close correlation between attaining program objectives and observing the quantitative policy instruments. In 14 programs where either or both of the 2 policy instruments were observed, 2 or 3 objectives were attained. In 9 programs where the policy instruments were not observed, 2 or more of the objectives were not attained. Accordingly, we find a close correlation in 23 of the programs. Only in 7 programs is a relationship not clear.

Factors Affecting Implementation

There are several reasons why certain programs could not be implemented or, in rare instances, where the measures were implemented, the targets could not be reached. These factors are essentially the following: unforeseen developments, difficulties in mobilizing strong political support, limitations in the administrative infrastructure, overly ambitious program expectations, and delays in inflows of development assistance. Notwithstanding such problems, a number of countries readapted their policies and successfully carried out their adjustment programs.

By far the most important factor resulting in unsuccessful implementation of programs was unforeseen developments. Even in instances when the program could be judged "successful," the success was limited by unforeseen factors. For example, in Liberia a higher-than-expected increase in oil prices caused losses in the energy-intensive iron ore sector. This, in turn, contributed to a fall in tax revenue, which made attaining the budgetary target more difficult. In addition, the increase in interest rates abroad contributed to pressures on both the budgetary and the external sector positions. A soft world coffee market caused a shortfall in export receipts for Madagascar. In Malawi, the failure of the maize crop resulted in an increased demand for imported maize. Compounding this problem was the increase in international interest rates that also contributed to budgetary and balance of payments pressures. Implementation of the Fund-supported program in Mauritius was adversely affected by two factors: a higher oil bill, owing to increases in international prices, and cyclones, which damaged the sugar crop and caused exports to decline sharply.

While Morocco was implementing its adjustment program, the world demand for phosphate fell. This led to a shortfall in Morocco's phosphate export receipts. At the same time, Morocco's agricultural output fell, owing to drought. Higher-than-anticipated international interest rates also added to the budgetary and external sector imbalances, while the appreciation of the U.S. dollar resulted in an increase in the domestic subsidy of basic consumer goods.

In Senegal, performance under the Fund-supported program was affected by drought. Sierra Leone also suffered from a weakening of export prices and unexpectedly high levels of rice imports made necessary by unfavorable weather. In Tanzania, export prices turned out to be lower than projected. Togo's export performance suffered because of shortfalls in both the quantity and the price of exports. In Zaïre, export prices took a turn for the worse at the same time that capital inflows fell short of expectations. Zambia's performance was affected by two developments: the sharp decline in copper and cobalt prices—its two main exports—and an increase in debt service payments, owing mostly to higher international interest rates. In Zimbabwe, a landlocked country, a disruption of the transport system had a severe impact on the implementation of the program.

The second most important reason for unsuccessful programs was the difficulty that governments encountered in mobilizing sufficient political support for their adjustment efforts. This is most apparent with regard

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Table 4. Africa: Indicators of Performance Under Fund-Supported Adjustment Programs, 1980–81

	Objectives									Instruments								
	Economic Growth			Inflation			Ratio of Current Account Deficit to GDP			Ratio of Budgetary Deficit (excluding grants) to GDP			Net Domestic Credit Growth			Two or Three Objectives Attained	One or Two Instruments Attained	Objectives and Instruments Simultaneously Attained [1]
	T/P	A/T	A/P	T/P	A/T	A/P	T/P	A/T	A/P	T/P	A/T	A/P	T/P	A/T	A/P			
Central African Republic	G	N	L	G	N	G	G	N	G	L	N	G	G	N	G	N	N	N
Central African Republic	G	N	L	L	A	L	G	A	L	L	N	G	L	A	L	A	A	A
Equatorial Guinea	—	—	—	—	—	—	—	—	—	—	—	—	G	N	G	—	N	—
Equatorial Guinea	—	—	—	—	—	—	—	N	—	—	N	—	L	A	L	—	A	A
Ethiopia	G	N	G	—	—	G	G	A	G	—	—	G	G	A	G	—	A	A
Gabon	G	N	L	L	A	L	G	N	G	L	A	L	L	A	L	N	A	X
Gabon	G	N	G	G	N	G	L	N	G	L	A	L	G	A	L	N	A	X
Gabon [2]	G	A	G	G	N	G	G	A	G	G	A	G	G	A	G	A	A	A
Gambia, The	G	N	G	G	A	L	L	A	L	G	N	G	L	N	L	A	N	X
Ivory Coast	L	N	L	—	—	L	L	A	L	L	A	L	L	N	L	A	A	A
Kenya	G	N	G	L	N	G	L	A	L	L	N	G	G	N	G	N	N	N
Liberia	—	—	L	G	A	L	—	—	L	G	N	G	—	—	L	A	A	A
Liberia	—	—	G	L	A	L	—	—	L	L	N	G	G	A	G	A	A	A
Madagascar	G	N	L	L	N	G	L	N	L	L	N	L	L	N	L	N	N	N
Malawi	L	N	L	L	N	G	L	N	G	L	N	G	L	A	L	N	A	X
Malawi	G	N	L	L	A	L	L	N	L	L	N	G	G	N	G	N	N	N
Mauritania	—	—	G	—	—	L	G	A	L	L	N	G	G	A	L	A	A	A
Mauritania	—	—	L	—	—	L	L	A	L	L	N	L	G	A	G	A	A	A
Mauritius	L	N	L	L	N	L	G	N	G	L	A	L	G	A	G	N	A	N
Mauritius	G	A	G	L	A	L	L	A	L	L	A	L	L	N	L	A	A	A
Morocco	G	N	L	G	N	G	L	N	L	G	N	G	G	A	G	N	A	X
Morocco	G	N	L	G	N	G	L	N	G	L	N	G	G	N	G	N	N	N
Senegal	L	N	L	G	A	L	L	N	G	—	—	—	L	N	L	N	N	N
Senegal	G	N	G	G	A	G	G	A	G	L	A	L	G	A	G	A	A	A
Sierra Leone	G	N	L	G	N	G	L	N	L	L	N	G	L	A	L	N	A	X
Sierra Leone	L	N	L	L	A	L	L	N	G	L	N	G	G	N	G	N	N	N
Somalia	—	—	—	L	N	G	—	—	—	—	—	—	L	N	L	—	N	—
Somalia	—	—	—	L	N	G	—	—	—	—	—	—	L	A	L	A	A	A
Tanzania	—	—	—	—	—	L	—	—	—	—	—	—	L	N	L	—	N	—
Togo	G	N	L	—	—	G	L	N	L	—	—	L	—	—	L	N	—	—
Togo	L	N	L	L	N	G	L	N	G	—	—	L	—	—	L	N	—	—
Uganda	G	A	G	L	N	G	G	A	G	L	N	G	G	A	G	A	A	A
Zaïre	L	A	G	L	A	L	—	N	—	G	N	G	—	—	G	A	N	X
Zambia	G	N	G	G	A	G	L	N	G	L	N	L	L	N	G	N	N	N
Zimbabwe	L	A	L	G	A	L	L	N	G	L	A	L	L	N	G	A	A	A
Greater than One (G) or Attained (A)	**18**	**5**	**12**	**12**	**13**	**17**	**9**	**11**	**15**	**5**	**8**	**17**	**16**	**16**	**17**	**14**	**20**	**14**
Less than One (L) or Not Attained (N)	**8**	**21**	**18**	**15**	**14**	**16**	**18**	**18**	**14**	**21**	**19**	**12**	**15**	**15**	**18**	**16**	**13**	**9**

Code: G = Greater than one; N = Not attained; L = Less than one; A = Attained
T/P = Ratio of target to previous year
X = Targets attained but instruments not attained, or vice versa
A/T = Ratio of actual outcome to target
A/P = Ratio of actual outcome to previous year

Source: International Monetary Fund.

[1] In some instances, where information was incomplete, assessments based on various indicators were used. This column indicates whether targets and instruments in the previous two columns were simultaneously attained.

[2] This line covers the third year of Gabon's extended arrangement, which started in 1980.

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to the implementation of fiscal policies. The governments of the Central African Republic, Ethiopia, Equatorial Guinea, Kenya, Madagascar, Malawi, Morocco, Senegal, Sierra Leone, Togo, Zaïre, and Zambia found it difficult to keep to the level of expenditures outlined in their programs. Furthermore, in a number of countries revenues fell short of expectations either because necessary tax measures were delayed or because improvements in tax collection enforcement could not be carried out as expected.

Related to the last point is the question of the administrative capability of countries to implement measures that are necessary for adjustment. In most countries this is particularly apparent in the case of fiscal measures, where improvements in expenditure control and revenue collection could not be effected, even where the government appeared to be determined to bring about such improvements. In a number of programs it was also expected that action would be taken to improve the position of public enterprises. The expected improvements did not materialize, mainly because of the limited administrative capabilities of the government to effect the requisite changes.

Another factor was the appropriateness of the targets set out in the programs. In some instances the requisite policies were observed, but the targets were not attained. Interestingly, there are virtually no cases where the targets were attained without the observance of the requisite policies. In some cases, the macroeconomic interrelationships may have been different from those assumed in the initial design of the program. In other cases, data limitations may have resulted in errors in economic forecasting. Some targets may also have been too optimistic in light of the constraints operating in the economy.

Finally, in a few cases there were either delays or shortfalls in net inflows of development assistance. In this group the notable examples are Mauritania, Kenya, Sierra Leone, and Tanzania.

Performance Criteria

Certain indicators were used in the course of implementation to determine whether the programs were progressing satisfactorily. Whenever these indicators deviated from targets, the Fund and the country would consult on whether additional measures were needed to keep adjustment on track. These indicators, usually referred to as performance criteria, included net credit to the government sector and net domestic credit or net domestic assets. In addition, in many countries quantitative limits were set on nonconcessional external loans contracted and on external payments arrears. In rare instances, where it was deemed applicable, subceilings were set on credit to the private sector, as were limits on external payments arrears, the ratio of the government budgetary deficit to GDP, and domestic government payments arrears. The programs also provided that there be no intensification of restrictions on payments and transfers for current international transactions, nor on imports for balance of payments purposes. The programs also set dates for reaching understandings about future policies and performance criteria.

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VI Case Studies of Somalia and Mali

While the last section examined in aggregate the performance under programs in Africa during 1980–81, this section provides case studies of two African countries, Somalia and Mali,[10] which had Fund-supported programs during 1980–83. Somalia had a succession of three stand-by arrangements during this period, starting in 1980. Mali, by contrast, had two stand-by arrangements, starting in 1982. These two case studies illustrate specifically the differing factors that led to the emergence of imbalances, the policies set out under each of the programs, and the progress made in implementing the programs.

Somalia

Emergence of Imbalances

During the 1970s a series of internal and external developments adversely affected the performance of the Somali economy. A severe drought in 1974–75 led to a sharp drop in agricultural production and destroyed a large part of the livestock herd. Regional hostilities during 1977–78 resulted in an influx of refugees and the loss of the use of a major grazing area. As these events buffeted the Somali economy, government expenditures rose sharply and eventually led to a considerable widening of budgetary deficits that were financed by increased bank borrowing. The resulting expansion in net domestic credit began to exert considerable pressure on prices and the balance of payments. Economic growth came to a standstill in 1979.[11] The rate of inflation more than doubled between 1978 and 1979, and the overall balance of payments plunged from a surplus in 1978 to a record deficit of US$99 million in 1979.

To contain mounting inflationary pressures and redress the deteriorating external position, the Somali authorities adopted a stabilization program at the beginning of 1980, supported by a one-year stand-by arrangement with the Fund in an amount equivalent to SDR 11.5 million. The program relied primarily on restrained fiscal and monetary policies, including an increase in interest rates. Agricultural producer prices were also raised to stimulate production.

Although the financial program's credit and external debt ceilings were exceeded, financial management and economic performance improved somewhat during 1980. With a better overall budgetary position, the Government resorted less to bank financing. This contributed to a sharp deceleration in net domestic credit and domestic liquidity expansion. Economic activity expanded at a moderate pace, owing to a slight increase in agricultural output and a considerable rise in government employment. The rate of inflation, however, more than doubled again, fueled by pent-up excess demand from the preceding years and from higher domestic prices for imports entering via the parallel market, where the Somali shilling sold at less than half the official rate. A recovery of livestock exports and a higher level of official transfers resulted in a narrowing of the current account and the overall balance of payments deficits. Nevertheless, gross official international reserves dwindled to about a month's cash imports—about half their level at the end of 1979—and Somalia's external payments arrears almost tripled, reaching US$45 million.

The 1981–83 Adjustment Effort

The stabilization policies pursued in 1980 were followed by a major adjustment effort, which the Somali authorities launched in mid-1981. The effort, supported by two consecutive stand-by arrangements with the Fund (covering the period July 15, 1981 to January 14, 1984), aimed at stimulating domestic production, slowing the rate of inflation, and reaching a sustainable external sector position over the medium term. The adjustment effort over the course of the next two and a half years focused on both supply- and demand-oriented policies, which were continuously modified to adapt to changing circumstances. This pragmatic approach enabled Somalia to make considerable progress toward reaching the goals of the

[10] The case studies were prepared by Nur Calika and Lelde Schmitz, respectively.
[11] Somalia has no official national income accounts data. Data used in this article are based on rough estimates by the Fund staff.

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adjustment program—even in the face of unexpected events, which adversely affected the economy. Among these events were an outbreak of regional hostilities, an embargo on Somalia's livestock exports in its main export market, Saudi Arabia, and unfavorable weather conditions.

The Policies

As part of the adjustment effort, the Somali authorities adopted a realistic exchange rate policy and measures designed to enhance the profitability of export industries, promote import-competing activities, encourage the inflow of workers' remittances through official channels, and reduce the reliance on administrative decisions to allocate scarce foreign exchange.

In mid-1981, the authorities devalued the Somali shilling by 50 percent in foreign currency terms for most foreign exchange transactions (with the main exception being goods designated as essential), discontinued issuing licenses for own-foreign-exchange (*franco valuta*) imports,[12] liberalized private sector imports, and introduced external accounts denominated in U.S. dollars.

These measures were followed in mid-1982 by another devaluation of 17 percent on the export side and 34 percent on the import side in foreign currency terms. The year-old dual exchange rate system was unified, the control on private sector imports was further eased, and the Somali shilling was pegged to the SDR. Because the SDR basket was more representative of the pattern in Somalia's international transactions than the U.S. dollar, pegging the shilling to the SDR was expected to help stabilize the nominal effective exchange rate.

During the second half of 1982, an unexpected private capital outflow began and was financed by workers' remittances through the parallel market. To curb capital outflow and to encourage the inflow of workers' remittances through official channels, a bonus plan was devised. This offered a 25 percent premium in foreign currency terms above the official exchange rate for workers' remittances and for capital sent into the country by Somali nationals. Bonus plan participants also were granted priority for import licenses. Simultaneously, interest rates on external accounts denominated in U.S. dollars were set at internationally competitive levels, and the scope of external accounts that could be used for import payments was widened.

To avoid a gradual overvaluation of the Somali shilling and to obviate the need for large exchange rate changes, a managed float was adopted in mid-1983, under which the Somali shilling was pegged to the SDR adjusted for the relative rates of inflation between Somalia and the five countries in the SDR basket.

External sector policies were reinforced by liberalized pricing and marketing policies designed to encourage economic growth. At the outset of the adjustment effort, producer prices of major agricultural products were raised 17–50 percent. Producer prices of bananas were raised 158 percent. The monopsony enjoyed by the government agency dealing with cereal products was discontinued, and producers were allowed to market their produce freely in the marketplace. The government agency retained its producer prices as minimum guaranteed prices. Moreover, the government marketing agency responsible for banana exports adopted a policy of passing on to producers through adjustments in the producer price and further redistributions of the agency's profits the effects of exchange rate changes and movements in selling prices.

The poor performance of some public enterprises was due to lack of technical expertise, shortage of spare parts, deficiencies in management, excessive taxation, inadequate accounting procedures, rigid pricing policies, and inadequate labor performance. Taking these factors into consideration, the Government adopted measures to improve the productivity and profitability of public enterprises and decided to close those that were not economically viable and did not provide essential social services. In 1981, three such public enterprises were phased out of operation.

During the second half of 1982, an inter-ministerial commission was established to audit public enterprises. These audits were to be used as the basis for determining which enterprises should be phased out of operation. Audit results also were used to formulate recommendations to improve operations of enterprises deemed viable and to introduce uniform accounting procedures. The commission's report was completed at the end of 1983, and its recommendations, along with tax reform for public enterprises that had been postponed until this report was completed, were to be implemented in phases.

Changes continued in 1983, when the Government transformed its banana export agency to a semipublic enterprise by transferring the majority of the agency's shares to the private sector. The principle of economic pricing was adopted. With the Government's decision that enterprises sell at prices that reflected production costs as well as an adequate profit margin, controlled

[12] In the face of mounting pressures on official foreign exchange reserves and inadequate supplies of imported consumer goods, the Government had authorized importers to obtain imports with their own foreign exchange. The parallel market that had evolved during the 1970s as a consequence was supplied with foreign exchange by emigrant Somali workers and by exporters who underinvoiced livestock exports.

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input and output prices of public enterprises were discontinued. To strengthen managerial capabilities, boards of directors were established and empowered to make decisions for industrial enterprises. Moreover, management and accounting training was provided to the staffs of these enterprises. To increase labor productivity, the Government set up a system of production incentives for laborers in several enterprises.

Considerable progress was also made during the 1981–83 adjustment program in strengthening the development planning process. The Five-Year Development Plan (1982–86), completed late in 1982, incorporated for the first time a macroeconomic framework. In 1983 the Government prepared, in consultation with the World Bank and the Fund, a medium-term recovery program for 1984–86. The program, which was presented at a Consultative Group Meeting organized by the World Bank in October 1983, included a phased program of measures to improve resource mobilization, allocation, and utilization; a macroeconomic framework; and a core public investment program. The core investment program was designed to direct available resources to development activities with the greatest promise of augmenting domestic commodity production, increasing exports, and replacing imports.

While carrying out the adjustment program's supply-oriented policies, the Government tightened financial policies and succeeded in containing the growth of aggregate demand. Fiscal policy during 1981–83 was marked by an austere expenditure policy carried out in tandem with efforts to increase government revenue. The overall deficit of the Central Government was reduced from 9 percent of gross domestic product in 1980 to about 3 percent in 1983. The current budget deficit moved from 3 percent in 1980 to 1 percent in 1983. The rate of growth of domestic bank financing of the deficit was reduced from 55 percent in 1980 to 18 percent in 1981, and in 1982 and 1983 the Government was able to reduce its net indebtedness to the banking system by about 7 percent and 14 percent, respectively.

During 1981–83, domestic revenues increased at an annual average rate of about 42 percent. This was due primarily to a number of new tax measures to expand the revenue base and enhance the elasticity of the tax system. These included a 25 percent tax on livestock exports,[13] changes in custom valuation procedures, the elimination of exemptions on import duties for some public and private enterprises, and the conversion of major specific excises to an ad valorem basis. Tax collection procedures were improved, penalties on delinquent taxes were increased, and the practice of negotiating tax liabilities under the *concordato* procedure was significantly reduced. Simultaneously, budgetary grants more than doubled. An oil grant from Saudi Arabia began in early 1982 and continued through the end of 1983, accounting for 16 percent of receipts in 1982 and 11 percent in 1983. Project grants, however, declined sharply in 1983.

By contrast, the annual growth rate of total expenditure was confined during 1981–83 to about 28 percent. In real terms, this implied a substantial decline in the level of expenditures—the result of austerity measures and strengthened expenditure control. The Government recruited fewer new employees, did not grant cost-of-living salary adjustments to civil servants,[14] limited administrative and other expenditures, and reduced capital outlays. The Government limited capital outlays, pending completion of the document outlining the 1984–86 public investment program. Although it did not have a significant impact during this period, a major decision was taken in August 1983 to discontinue the policy of guaranteed employment for high school graduates. A study of the civil service salary structure was initiated. In addition to surveying the size and structure of the civil service, the study was to provide information for a reorganization that would lead to a restructuring of the ranks and reward more productive government employees.

As the budgetary position improved, the authorities were able to exercise more flexibility in conducting monetary policy. The rate of growth in domestic credit was reduced from 31 percent in 1980 to 5 percent in 1983. This deceleration was due to net domestic credit to government increasing by only 18 percent in 1981 (about one-third the 1980 rate) and contracting in 1982 and 1983 by 7 percent and 14 percent, respectively. Credit to the private sector (including public enterprises) was allowed to expand by about 18 percent in 1983, compared with 15 percent in 1980. To encourage private sector economic activity, credit to the private sector proper (excluding public enterprises), which had declined by 5 percent in 1980, was allowed to expand more than fivefold by the end of 1983. Production and export activities were assigned priority for credit.

The rate of expansion in domestic liquidity was reduced from 20 percent in 1980 to 16 percent in 1982, and to 8 percent in 1983. The decline in domestic liquidity in 1983 was deemed important not only to

[13] The tax was levied on a lower price than the actual export price.

[14] The only salary adjustment during the period was due to the abolition of the development levy on government salaries, which resulted in an effective average increase of 10 percent in wages of government employees. During 1980–83 civil service salaries declined by about 46 percent in real terms.

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Table 5. Somalia: Selected Economic and Financial Indicators, 1980–83

	1980	1981	1982	1983
	(Annual percentage changes)			
National income and prices				
GDP (at constant prices)[1]	2.1	4.9	10.9	4.1
Consumer price index	59.0	44.6	22.6	36.4
External sector				
Exports, f.o.b. (in millions of U.S. dollars)	25.5	−14.3	20.2	−27.0
Imports, c.i.f. (in millions of U.S. dollars)	17.0	− 8.3	14.7	− 7.0
Change in the nominal import-weighted effective exchange rate	0.3	− 5.0	−27.9	−11.7
Central government budget				
Revenue (excluding grants)	− 6.9	59.3	22.0	54.1
Total receipts	5.1	41.8	41.4	40.4
Total expenditure	− 3.8	18.8	44.2	22.4
Money and credit				
Domestic credit	31.2	17.2	10.5	4.7
Credit to government	54.5	18.3	− 6.7	−14.0
Credit to private sector[2]	14.6	16.1	27.3	18.2
Money and quasi-money	20.2	30.8	15.7	7.5
	(Percent of GDP[1])			
Overall budget deficit				
Including grants	9.1	5.0	5.6	3.2
Excluding grants	12.6	7.1	9.3	5.8
Current account deficit				
Adjusted[3]	6.3	2.9	3.0	2.3
Unadjusted	6.3	4.4	6.5	5.9
Current account deficit (excluding grants)				
Adjusted[3]	13.0	7.5	6.5	4.7
Unadjusted	13.0	11.2	14.4	11.8
Overall balance of payments deficit				
Adjusted[3]	1.3	0.4	1.0	1.5
Unadjusted	1.3	0.6	2.2	3.7
External debt				
Adjusted[3]	32.3	27.2	23.8	20.0
Unadjusted	32.3	54.4	57.6	55.9
Debt service ratio[4]	4.6	14.2	12.2	16.5
	(Million U.S. dollars)			
External payments arrears[5]	44.6	15.5	—	—

Sources: Data provided by the Somali authorities; and Fund staff estimates.
[1] GDP data are based on Fund staff estimates derived from 1978 base using estimates of real GDP growth and the CPI as a proxy for the GDP deflator.
[2] Includes public enterprises.
[3] Adjusted for exchange rate changes. A constant exchange rate is used to illustrate the change in positions on a year-to-year basis.
[4] As a percentage of exports of goods and services.
[5] Does not include amounts in respect of Italian suppliers' credits, which were under negotiation.

reduce excess demand pressures but to limit the monetary balances affecting capital outflows.

During 1981–83 a flexible interest rate policy was followed to improve financial intermediation, encourage domestic savings, increase emigrants' remittances, and discourage capital outflows. Under this policy, the structure of interest rates was twice revised upward. In another effort to improve the process of financial intermediation domestically and to encourage the inflow of remittances through official channels, in mid-1983 the state-owned commercial bank's monopoly was abolished, and a policy decision was made to permit branches of foreign banks to operate in Somalia.

The Objectives

The policies that Somalia followed during its adjustment program contributed to an improvement in economic conditions. The improvement is all the more impressive if account is taken of the renewed regional hostilities, poor weather conditions during 1983, and, that same year, a ban on Somalia's cattle in its main export market.

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The estimated growth of real GDP, which had averaged about 1 percent a year during 1979–80, increased to about 5 percent in 1981 and nearly reached 11 percent in 1982. Despite worsening weather, economic growth continued at a sustainable rate of 4 percent during 1983. Agricultural production particularly benefited during the adjustment program from the changes in relative prices resulting from devaluations and liberalized pricing and marketing policies.

The rate of inflation fell sharply. At the beginning of the adjustment program, following the devaluation in mid-1981, prices started to decline, so that the annual rate of inflation fell to 45 percent in 1981 from 59 percent in 1980. Such progress is all the more remarkable when the high rate of inflation that prevailed in the first half of the year is taken into account. The following year, inflation was halved. In 1983, unfavorable weather and a shortfall in foreign exchange receipts (because of the ban on Somali cattle) took a toll on supply conditions, and the inflation rate rose to 36 percent.

In the external sector, the current account deficit (adjusted for exchange rate changes) declined from 6 percent of GDP in 1980 to 2 percent of GDP in 1983. In 1981, the current account deficit narrowed sharply, and the overall balance of payments deficit was less than half of that recorded in 1980. This improved external position was mainly due to lower-than-expected imports, reflecting the record agricultural harvest and sharply curtailed government outlays. This improvement is especially impressive in light of decreased exports that same year. Livestock exports fell somewhat, because of shipping difficulties and a temporary work stoppage at the season's peak. The 1981 average for bananas and other exports declined as well. While exports of these latter products declined in the first half of the year, their export levels picked up during the second half of the year due to improved transportation facilities and increased producer prices.

In 1982, exports rebounded, growing by about 20 percent. This increase was seen in the volumes of most export products. Imports, however, climbed by 15 percent, but this was due, significantly, to more aid in-kind. The greater-than-anticipated aid in-kind and better agricultural production also affected the level of foreign exchange imports, which were substantially lower than projected. The current account deficit (adjusted for exchange rate changes) as a percentage of GDP held at about the same level as in 1981. Excluding grants, however, the ratio declined from 7.5 percent of GDP in 1981 to 6.5 percent in 1982. The overall balance of payments deficit of US$44 million, however, was somewhat higher than anticipated, owing to a large extent, to capital outflows.

Despite the cattle ban, in 1983 the deficit on the trade balance remained at about the same level as in 1982. Cattle exports declined by more than 70 percent in 1983, causing total livestock export proceeds to fall by about 32 percent. This drop, however, was almost fully offset by a contraction in imports, accounted for mostly by imports related to the public investment program.

As the scope for using external accounts to finance imports widened, private capital outflows financed by private transfers through the parallel market slowed down. Nevertheless, the surplus on the capital account dropped, owing to lower loan disbursements on projects. As a consequence, the overall 1983 balance of payments deficit reached US$93 million.

In accordance with the objectives of the adjustment program, identified external payments arrears, which had amounted to US$45 million at the end of 1980, were either rescheduled or repaid by the end of 1982.[15] Furthermore, Somalia did not contract nonconcessional loans during the program period, and, by securing debt relief, succeeded in confining the increase in its debt service ratio from 5 percent in 1980 to 17 percent in 1983.

Conclusion

By undertaking a major adjustment effort during 1981–83 that involved supply- and demand-oriented measures, Somalia—despite unexpected exogenous developments—was able to make considerable progress in re-establishing domestic and external financial stability. Even in the face of renewed regional hostilities, unfavorable weather conditions, and an embargo on cattle in its major export market, the Somali authorities continued with their adjustment efforts and, when appropriate, modified their policies in an attempt to attain their adjustment objectives. The contribution of these efforts to structural adjustment in Somalia can be expected to be fully realized over the medium term. In this regard, the continued pursuit of appropriate economic and financial policies, the implementation of an appropriate public investment program, the elimination of remaining institutional bottlenecks, and the availability of external financial assistance at concessional terms will determine to a large extent the medium-term prospects of the Somali economy and thus the attainment of a sustainable rate of economic growth under conditions of financial stability.

[15] This figure excludes obligations to Italian suppliers whose terms of rescheduling were under ongoing discussions during 1982 and 1983.

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Mali

Emergence of Imbalances

For two decades after independence in 1960, the Malian authorities tried to promote economic development through ambitious public investment programs, financed externally, and state intervention in virtually all economic spheres. In the agricultural sector, services and inputs were subsidized, and producer prices for cereals and other crops were kept lower than in neighboring countries. As a result of inadequate official pricing policies, a large volume of cereal production was sold on parallel markets.

The public enterprise sector (52 enterprises) acquired a dominant role, covering virtually all areas of economic activity. Public enterprises suffered from an official pricing policy for their goods and services, which together with overstaffing and weakness in their financial structure and management, resulted in substantial annual losses. These losses were financed mostly by credit from the Development Bank of Mali up to 1977. Thereafter, when bank financing of current operational losses was curtailed, the losses were partly financed by equity capital, and partly by an accumulation of arrears. The pricing policy was intended to contain the rise in the urban cost of living in order to avoid wage demands. The authorities' welfare orientation involved a high level of public expenditure for scholarships and a policy of guaranteed government employment for university graduates, which was reflected in rising budget deficits.

Given the irregular inflow of external budgetary assistance and the statutory limits on central bank credit, the treasury accumulated a substantial volume of domestic and external payments arrears. The effects of these policies were compounded by frequent drought conditions and a deterioration in the terms of trade, following the steep increases in oil prices starting in 1973. Thus, during these two decades serious structural and financial imbalances emerged. By 1980, these imbalances were reflected in a decline in economic activity, large annual losses of the public enterprise sector, a high rate of inflation, a large and unsustainable balance of payments deficit, and domestic and external payments arrears amounting to nearly US$70 million. The consolidated budgetary deficit before grants (excluding foreign-financed public investment) reached 4 percent of GDP, but the rate of growth of domestic credit remained moderate, partly because of the accumulation of arrears.

The seriousness of the economic and financial difficulties led the authorities to review their policies during 1980. There was a recognition that solutions to the structural difficulties required comprehensive reforms involving all sectors of the economy. The authorities sought to promote a better balance among the roles of the government, the public and mixed enterprises, and the private sector in order to enhance resource allocation, stimulate production, and reduce the financial disequilibria. Accordingly, they adopted a number of initial measures in 1980 and 1981.

In the agricultural sector, official producer prices were increased, cereal marketing liberalized, and steps were taken to restructure the cereal marketing agency (OPAM). Between 1978/79 and 1980/81, producer prices were raised by 75 percent for cereals, 33 percent for groundnuts, and 21 percent for cotton. Nevertheless, agricultural production and overall economic activity declined in 1981, in large part because of insufficient rainfall.

In the public enterprise sector, the authorities closed down a number of enterprises, opened others to private participation, curtailed distribution activities of the largest state enterprise, the import-export agency (SOMIEX), and increased retail prices of essential goods by 10 to 30 percent and of petroleum products by as much as 125 percent. As a result, the aggregate operating losses of the major enterprises declined by one-third in 1981 to about US$20 million, or 1.7 percent of GDP.

At the same time, efforts to improve fiscal performance met with success. These efforts included considerable tightening in tax administration, increases in indirect taxes, sharp cuts in scholarships, a wage freeze, and the containment of maintenance expenditures. Although the consolidated budget deficit declined to 1.9 percent of GDP in 1981, the deficit exceeded available financial resources, and arrears continued to accumulate. Credit grew at a higher rate than in 1980, because the rate of net credit to the government rose substantially.

In the circumstances, although the rate of inflation declined, the current account deficit of the balance of payments (excluding official transfers) rose as a proportion of GDP and the overall balance of payments deficit widened from US$33 million in 1980 (2.3 percent of GDP) to US$37 million in 1981 (3.1 percent of GDP). These deficits were financed through the overdraft facilities of the operations account with the French treasury, maintained since 1968, which guaranteed the free conversion of the Malian franc into the French franc. Both external debt and the debt service ratio rose sharply, reaching about 80 percent of GDP and 14 percent of exports, respectively.

The 1982–83 Adjustment Effort

Against this background, the authorities embarked upon two successive adjustment programs, supported

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by the use of Fund resources, to reduce, over the medium term, the domestic and external imbalances. The first economic and financial program covered calendar 1982 and was supported by a stand-by arrangement in the amount of SDR 30.4 million between May 1982 and May 1983. The second program covered the balance of 1983 and calendar 1984 and was supported by a stand-by arrangement providing SDR 40.5 million with a disbursement period of 18 months ending May 1985.

Both programs aimed at promoting sustained economic growth, reducing inflationary pressures, and narrowing the external payments imbalances to a level consistent with a sustainable flow of external assistance. Both programs combined demand- and supply-oriented policies. On the demand side, the programs involved reducing budgetary deficits, containing credit growth, and following an austere income policy. On the supply side, the emphasis was on fostering an increase in the scope of the private sector in the economy, reorganizing key public enterprises, while increasing their efficiency, and reducing price and marketing distortions. To normalize the operations of Mali's financial system, which was adversely affecting production, arrears were to be reduced and finally eliminated by the end of the second stand-by period, and the Postal Checking System was to be restructured to function properly.

The Objectives

Most of the objectives under the two programs were met during 1982 and 1983. Following two years of declining economic activity, a recovery began in 1982. That year, GDP grew by 1.8 percent. The reason for this growth was substantially increased cereal production and trade, which benefited from favorable weather during the 1981/82 crop year, and a number of policy reforms. Higher agricultural production allowed for some decline in food imports and contributed to lower inflation. The index of food prices rose by 3.7 percent in 1982, compared with 12.7 percent the previous year. In 1983, however, a severe drought dealt a serious blow to cereal and groundnut production. Nevertheless, owing to a record cotton harvest, overall real GDP remained stable. Restrictive incomes and fiscal policy held consumption below GDP growth in 1982 and 1983, contributing to an improved savings ratio. Consequently, the resource gap at 23 percent of GDP in 1981, narrowed to an average of 19 percent in 1982 and 1983.

External payments imbalances were reduced in 1982 and 1983, reflecting the impact of a number of policy measures adopted under the programs. They included incentives for agricultural production; restraint on demand, with a corresponding slowdown of import expenditure; containment of debt service payments through a cautious borrowing policy; and the authorities' effort to renegotiate a portion of Mali's external debt. The deficit on the current account, excluding grants, narrowed from 20.3 percent of GDP in 1981 to 18.5 percent in 1982. With a sizable increase in concessional loans and refinancing of external debt obligations, the overall balance of payments deficit declined sharply in 1982 to US$4 million, compared with a deficit of US$37 million in 1981. After the strong performance of 1982, the current account deficit, excluding grants, rose as a ratio of GDP in 1983 because of the exceptional purchase of an airplane; excluding such a purchase, it declined. However, with a rising surplus on the capital account, the overall balance turned into a surplus of US$8 million, or 1 percent of GDP.

The reduction of domestic and external arrears exceeded targets. During 1982 and 1983, domestic arrears were reduced by 88 percent and are expected to be fully repaid by the end of 1984; external arrears were reduced by 60 percent with a further 40 percent reduction through cash payments envisaged for 1984.

The Policies

The achievement of program targets is largely due to the effective implementation of reform measures. In the agricultural sector, substantial progress was made toward reducing pricing and market distortions. A number of policy changes and reforms were made, some with technical assistance from the World Bank. These included increases in administered producer prices and the substantial liberalization of cereal marketing in early 1982, which involved reducing OPAM's responsibilities. Gradual increases in producer prices, maintained through 1983, raised incentives for producers and reduced the cereal price gap between Mali and its neighbors. At the same time, official cereal retail prices were increased, bringing them closer to market retail prices. OPAM cut its operating costs and succeeded in reducing its deficit from CFAF 2.3 billion in 1981 to CFAF 1.6 billion in 1982 and CFAF 1.4 billion in 1983.[16]

Other measures in the agricultural sector included the liberalization of groundnut marketing, the liquidation of the farm input supply agency, and the reform of production and marketing in the cotton sector. SOMIEX stopped absorbing cotton export profits to cover its losses in internal distribution. Instead, the proceeds were used to establish a price

[16] At the end of 1982, the exchange rate was CFAF 287 per US$1; at the end of 1983, it was CFAF 336 per US$1.

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Table 6. Mali: Selected Economic and Financial Indicators, 1980–83

	1980	1981	1982	1983
	(Annual percentage changes)			
National income and prices				
GDP (in millions of U.S. dollars)	1,422	1,202	1,095	1,031
GDP at constant prices	−1.2	−2.4	1.8	—
Food price index	20.2	12.7	3.7	10.6
National minimum wage	18.6	—	—	—
External sector				
Exports, f.o.b. (in millions of U.S. dollars)	39.0	−24.9	−5.2	13.8
Imports, c.i.f. (in millions of U.S. dollars)	42.8	−21.4	−14.7	5.5
Export volume	17.1	−11.5	4.3	15.8
Import volume	19.2	−20.3	−9.5	13.0
Change in the nominal trade-weighted effective exchange rate	−0.3	−3.7	−3.0	−2.5
Central government budget				
Revenue (excluding grants)	8.2	19.8	7.8	9.2
Total expenditure	9.5	5.2	3.3	7.8
Of which: personnel	14.7	4.5	5.5	10.6
scholarships	4.3	−17.1	−5.7	5.8
Money and credit				
Domestic credit	5.9	7.3	7.8	7.4
Credit to government	3.5	8.5	6.4	8.0
Credit to the economy	7.8	6.5	8.8	7.0
Money and quasi-money	3.9	5.8	8.6	15.4
	(Percent of GDP)			
Consolidated government budget[1]				
Excluding grants	−4.1	−3.0	−1.5	−1.5
Including grants	−3.1	−1.9	−1.2	−0.5
Consumption	102.6	105.4	101.9	101.5
Gross domestic investment	17.3	17.2	16.5	18.0
Gross domestic savings	−2.6	−5.4	−1.9	−1.5
Resource gap	19.9	22.6	−18.4	−19.5
Current account				
Excluding official transfers	−18.6	−20.3	−18.5	−19.6
Including official transfers	−10.2	−9.5	−8.0	−7.7
External debt[2]	53.2	77.9	94.4	110.7
Debt service ratio[3,4]	4.5	13.9	6.2	9.2
	(Million U.S. dollars)			
Overall balance of payments	−32.7	−37.4	−3.8	7.7
External payments arrears[5]	35.9	35.4	20.8	14.3
Domestic payments arrears	34.1	38.2	21.5	4.7

Sources: Data provided by the Malian authorities; and Fund staff estimates.

[1] Includes the operations of the Central Government, special funds, as well as extrabudgetary receipts and payments reflected in the Treasury accounts, but not operations of the rural development agencies, development expenditures financed directly by external aid, and interest charges to be refinanced or rescheduled.

[2] Inclusive of Fund credit and the operations account with the French Treasury.

[3] As a percentage of exports of goods and services and receipts from private transfers.

[4] Net of debt relief.

[5] Arrears subject to cash payments.

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stabilization fund for cotton producers. The organization and finances of 26 semiautonomous rural development agencies, which incorporate large numbers of smallholders, were reviewed in depth.

In the fiscal area, imbalances were reduced in 1982 and 1983, as envisaged under the program, owing largely to strictly controlled public consumption. Measures focused on expenditures and, in particular, on containing personnel expenditure, which in 1982 absorbed about 62 percent of total outlays, thus precluding adequate expenditures for maintenance, recurrent costs, and investment. Under an austere incomes policy, wages for civil servants had been frozen since 1981. This resulted in a 20 percent decline in real wages. In the second half of 1983, the Government discontinued automatically recruiting all graduates. Instead, competitive entry examinations were given to candidates for the civil service. Other measures for limiting growth in public employment included the strict enforcement of retirement rules, incentives for voluntary separation, and more flexible rules on releasing staff. Significant progress was made in strengthening the quality of financial management and in centralizing performance information on the Ministry of Finance's special funds, so that operations could be more closely monitored. Accordingly, the consolidated government deficit, before grants, declined from 3.0 percent of GDP in 1981 to 1.5 percent of GDP in 1982 and 1983. Including grants, the deficit was reduced from 1.9 percent of GDP in 1981 to 1.2 percent in 1982 and 0.5 percent in 1983.

Progress was made in rehabilitating the large public enterprise sector. However, that sector's contribution to improving aggregate supply through increased efficiency and to improving the savings ratio by reducing losses fell short of planned levels. The 1982 program called for a 30 percent reduction in the combined deficit of the 12 main public enterprises. While the deficit declined from CFAF 9.5 billion in 1981 to CFAF 7.3 billion in 1982, it remained above the target of CFAF 6.6 billion. The program's price and tariff increases were adopted. The planned privatization of nonstrategic companies and the restructuring of SOMIEX, however, were only partly completed. SOMIEX implemented most of the requested measures, such as scaling down activities. Nonetheless, it did not meet the financial objectives. SOMIEX closed its retail stores, limited marketed commodities to seven, and reduced its excess transportation equipment. However, management problems and a shortfall in the reduction of personnel associated with the closing of retail stores precluded better financial results. Some of the other main public enterprises improved their operational and financial performance, but a major restructuring did not take place, pending the completion of a comprehensive report funded by the World Bank.

In 1983, the overall deficit of the 12 key public enterprises was reduced by nearly one third to CFAF 5.3 billion. Redundant employees, representing 8 percent of public enterprises' total staff, were laid off, and three companies were closed at the end of 1983. However, major public enterprises encountered delays in implementing their rehabilitation programs and in strengthening their management.

Credit expansion in 1982 and 1983 remained below the targets for both the Government and the economy. In 1982, credit expanded by 7.8 percent, compared with a target of 10.4 percent. The Government received higher-than-expected budgetary assistance, which permitted credit to the Government to slow down to 6.4 percent. Seasonal credit to the economy declined because of delays in financing the large 1982/83 agricultural harvest. Consequently, the growth of credit to the economy in 1982 was 8.8 percent. In 1983, growth of credit to the economy was limited to 7.0 percent and largely accounted for the overall credit expansion of 7.4 percent, compared with a target of 10.2 percent. Interest rates on bank deposits were raised from 4.0 percent to 5.0 percent in May 1982.

Mali has made progress in strengthening the national debt agency. With assistance from the World Bank, further steps will be taken to complete the centralization of all foreign debt and to improve debt administration and management, in order to establish a fully reliable debt monitoring system.

Conclusion

The case of Mali illustrates the progress that a country can make by adopting an appropriate package of adjustment measures. After several years of declining activity, Mali benefited from an economic recovery during 1982–83. While the growth resulted in part from good weather conditions in 1982, new agricultural marketing and pricing policies were equally important factors. So were the tighter income, budgetary, and credit policies that led to a significant decline in inflationary pressures. Improved demand management and supply policies had substantial impact on the balance of payments. The balance of payments deficit was sharply reduced in 1982 and shifted into a surplus in 1983.

While the overall economic and financial situation improved significantly in 1982 and 1983, the task of structural change to improve the functioning of the economic system remains to be completed—particularly in agriculture and in public enterprises, whose rehabilitation will require additional substantial efforts.

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VII Conclusion

Even though some African countries implemented adjustment programs effectively during 1980–81, generally adjustment efforts of African countries remained fairly limited. During this period, the economic conditions in Africa did not show signs of improvement. After picking up somewhat in 1980, economic activity slowed down in 1981 to about 3 percent and stagnated in 1982. Inflation continued to rise during 1980–81 to an annual average of about 22 percent, but tapered off to 17 percent in 1982. The terms of trade declined sharply, by about 10 percent during the three-year period of 1980–82, reflecting in part the recession in the industrialized countries. The aggregate external current account deficit climbed from about US$10 billion in 1979 to an annual average of US$13.1 billion in 1980–82. These deficits continued to be financed primarily by foreign borrowing, with the result that total outstanding external debt rose from US$45 billion in 1979 to US$62 billion in 1982. As a ratio to GDP this represented an increase from 38 percent to 50 percent in three years. Rising international interest rates contributed to an even steeper rise in the debt service ratio, which increased from about 17 percent in 1979 to about 24 percent in 1982.

During 1983, economic conditions in Africa continued to be difficult. A sharp drop in the terms of trade, unfavorable weather conditions, and serious structural imbalances contributed to a fall in economic activity, reducing significantly per capita income. Inflation continued at about the same rate as in the previous year. While the aggregate external current account deficit declined from US$12.5 billion in 1982 to US$10.8 billion in 1983, it continued to require considerable external borrowing. This was compounded by the debt service ratio, which reached a record of 25 percent. Accordingly, by the end of 1983, the ratio of external debt of the African region rose sharply to 60 percent of GDP from 50 percent at the end of 1982. These developments show that the need for adjustment in Africa remains acute.

This study has examined the question of the design and implementation of adjustment programs supported by use of Fund resources in Africa during 1980–81. The programs under consideration were designed to promote economic growth, reduce inflation, and make progress toward a viable balance of payments position. The range of instruments and the intensity with which they were used varied considerably, according to the specific problems and macroeconomic relationships within the countries. Most programs emphasized both supply- and demand-oriented policies. Supply-oriented policies included measures regarding exchange rates, pricing policies, interest rates, investment policies, and the efficiency of public enterprises. These aimed at improving resource allocation, increasing capacity utilization, and expanding the productive capacity of the countries.

Demand-oriented policies included primarily fiscal and monetary measures aimed at keeping the growth of aggregate demand in line with supply constraints. Fiscal policies generally entailed reductions in the growth of expenditure, through restrained wage increases, limits on government employment, a containment or reduction of administrative expenditures, and an increase in the effectiveness of expenditure control. Tax measures were introduced with the aim of expanding the revenue base and enhancing the elasticity of the tax system. On the monetary front, the pursuit of an independent credit policy was constrained by the fact that budgetary policy dictated the credit expansion to the government sector. A number of programs aimed specifically at reducing the crowding-out effect and thus provided for greater growth in credit to the private sector.

The programs under consideration did not generally attempt to bring about large changes in the objectives or the instruments in the scope of one year. The aim was to bring about orderly adjustment. In some programs it was recognized that, while measures were being implemented to bring about adjustment over the medium term, significant immediate improvements were not feasible. In fact, in some cases, a rise in inflation and a widened current account deficit were anticipated during the program period. In certain instances, policy instruments allowed for an increase in the budgetary deficit and an acceleration in the pace of credit expansion.

The implementation of programs showed mixed

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results. Where data are available, they show that only about one fifth of the countries reached the targeted level of economic growth. With regard to inflation, nearly half reached their targets. About a third attained targets relating to the current account of the balance of payments. This study has shown that such mixed performance was associated with slippages in implementation.

Two key indicators of financial performance were used. These indicators were the budgetary deficit (excluding grants) as a ratio to GDP and the rate of growth of net domestic credit. In over two thirds of the countries the budget deficit ratio exceeded the targets. Performance was somewhat better with regard to the expansion of net domestic credit. In over half the countries, this latter indicator's rate of growth was kept within program targets. Where the quantitative target of either of these two financial instruments was observed, generally at least two of the three objectives were attained. Where the targets of either of these two instruments were not observed, at least two of the three objectives were not attained. Accordingly, a close correlation was established between policy implementation and attainment of objectives.

Slippages in implementation involved primarily the emergence of unforeseen developments, an inability to mobilize sufficient political support to implement the requisite adjustment measures, limitations in the administrative infrastructure, overly optimistic targets, and delays or shortfalls in net inflows of development assistance. However, unforeseen events were encountered both by countries that succeeded in implementing the programs and by countries that did not. This suggests that adjustment can be kept on track if policies are adapted to compensate for unexpected factors. However, this would generally imply a need to intensify adjustment efforts, for which a strong political commitment is necessary.

The case studies of Somalia and Mali provide concrete illustrations of adjustment programs supported by use of Fund resources. The roots and causes of the disequilibria differed somewhat between the two countries. Somalia faced a number of adverse exogenous factors, including a substantial drop in external aid and regional hostilities, which, together with expansionary financial policies, led to acute domestic and external financial imbalances. Mali, by contrast, had embarked on an ambitious public sector development program which, together with a large public enterprise sector, had led to expansionary financial policies. Both countries suffered from drops in their terms of trade and from extensive price controls. The programs in both countries aimed at resolving the resulting structural imbalances and reducing excess demand with a view to promoting a sustainable rate of economic growth, reducing inflation, and making progress toward a viable medium-term balance of payments position. The supply-oriented policies included readjustments of the exchange rate, liberalization of pricing and marketing policies, a reform of the public enterprise sector, and the pursuit of an appropriate investment strategy. Fiscal and monetary policies were designed to align aggregate demand with aggregate supply. The commonality of instruments is, thus, clear. However, these case studies show that differences in design of the programs, and the adaption of policies to changing and unforeseen circumstances, were critical to the progress made during the period of the adjustment programs. Both cases also illustrate that adjustment has to be viewed as a continuous process; no country can afford to implement an adjustment program and consider the task completed. The efforts have to be continued, taking into account the progress of previous years and the obstacles that still lie ahead.

While Fund programs can contribute to putting a country on a sustainable growth path, the real purpose of Fund financial assistance is to provide the necessary balance of payments support while the country takes steps to achieve a viable external sector position. The Fund's assistance is different from development assistance, which aims at augmenting the resources of the country directly for capital formation. Nevertheless, restoring financial stability can generate confidence that will encourage foreign investors and lead to private sector capital inflows. As recent experience shows, foreign creditors and donors are prepared to provide additional resources to countries undertaking serious adjustment efforts. Resources the Fund can make available in support of adjustment efforts, together with whatever private financing is generated, will have to be accompanied by additional financial assistance on concessional terms if developing countries are to attain a satisfactory growth level under conditions of financial stability. The ensuing growing productive capacity of developing countries can generate greater trade and, over the medium term, contribute to improving their ability to service their external indebtedness.

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Appendix I
Targets Compared with Previous Year[1]

Chart 1: Economic Growth

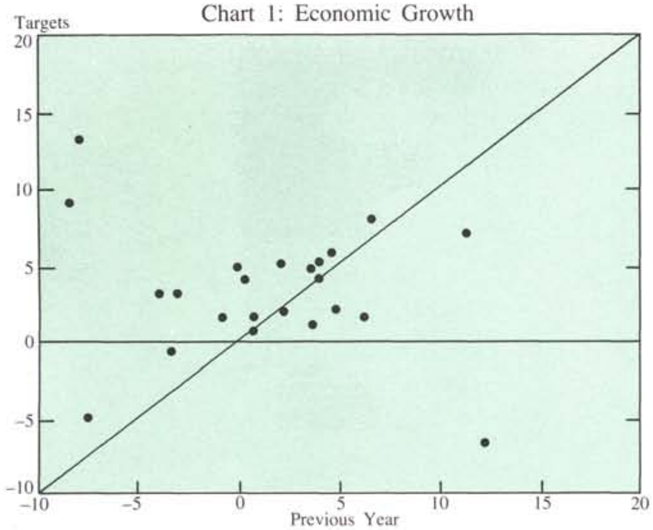


Chart 2: Consumer Price Index
(Percentage Change)

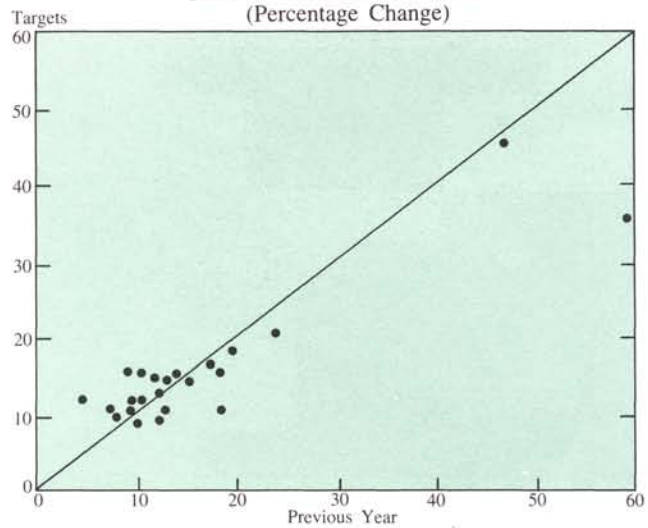


Chart 3: Current Account as a Ratio of GDP

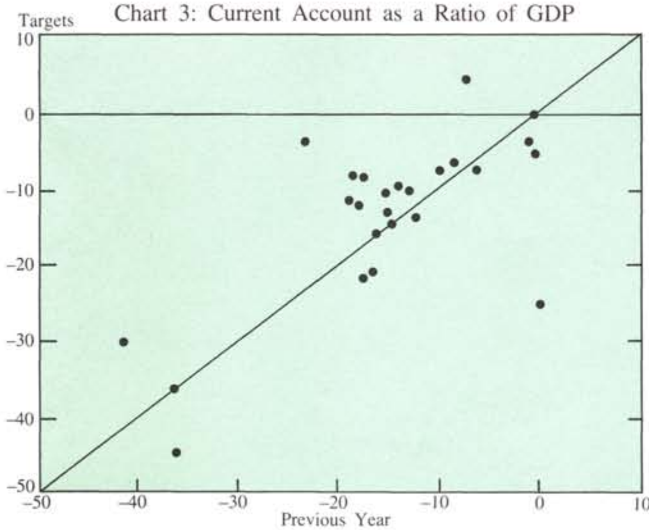
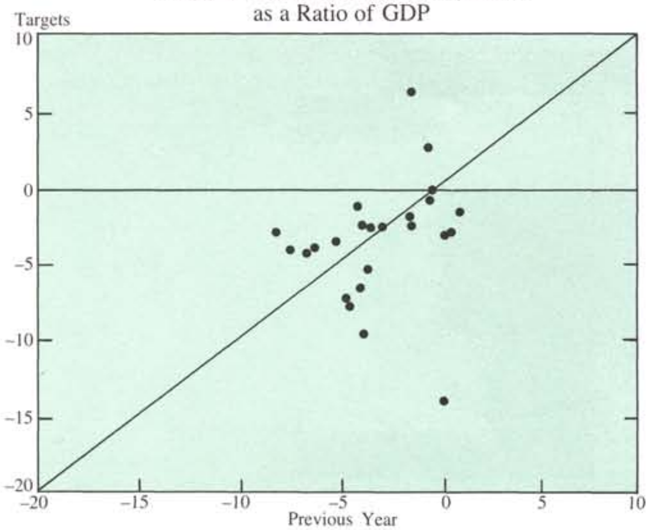


Chart 4: Overall Balance of Payments
as a Ratio of GDP



[1] Charts show actual outcome for the previous year on the horizontal axis. The targeted values for the subsequent annual program are on the vertical axis. Points above the 45 degree line represent a higher targeted value than the actual outcome in the previous year.

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Chart 5: Savings as a Ratio of GDP

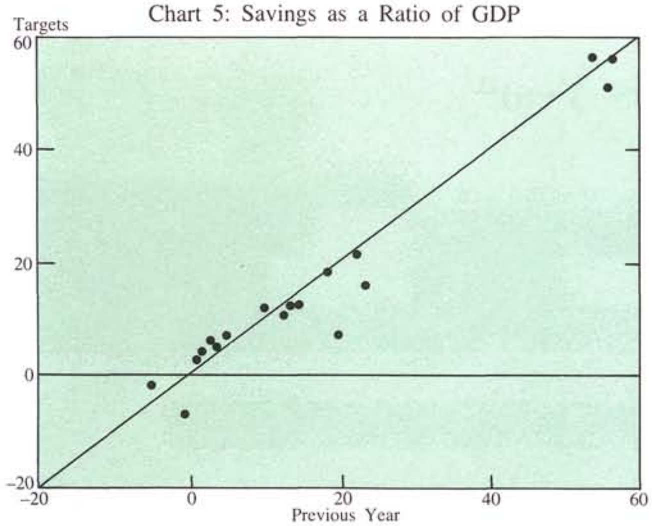

Chart 6: Investment as a Ratio of GDP

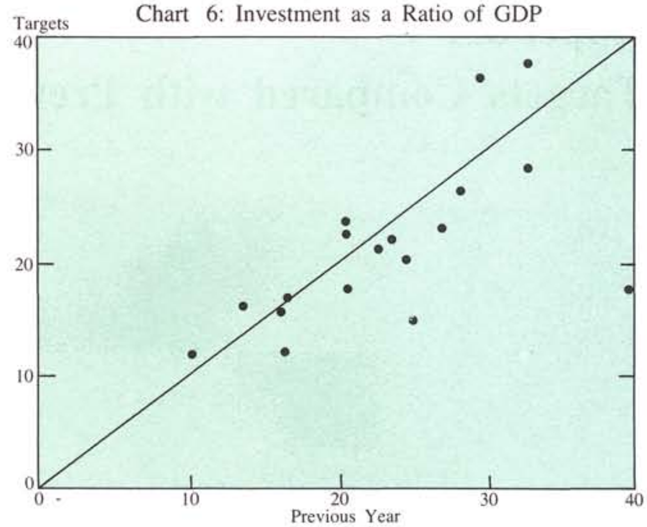

Chart 7: Government Revenue (Excluding Grants) as a Ratio of GDP

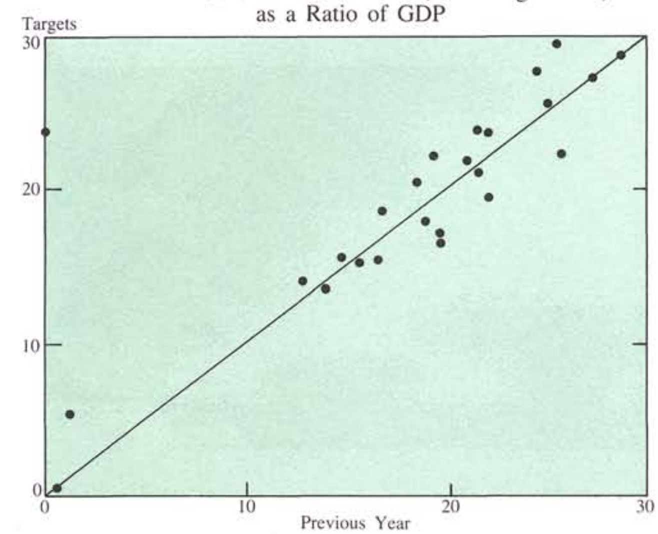

Chart 8: Government Expenditure as a Ratio of GDP

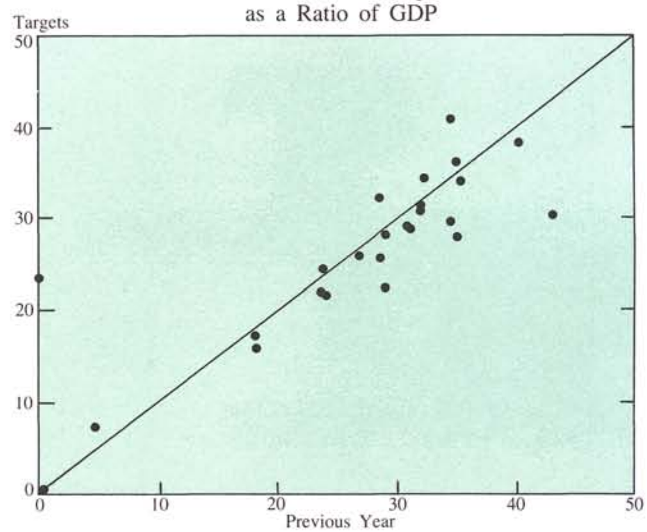

Chart 9: Government Deficit (Excluding Grants) as a Ratio of GDP

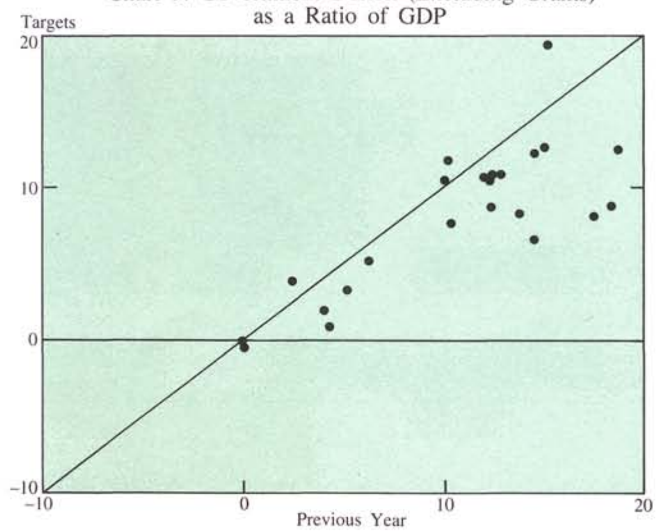

Chart 10: Net Credit to Government (Growth Rate)

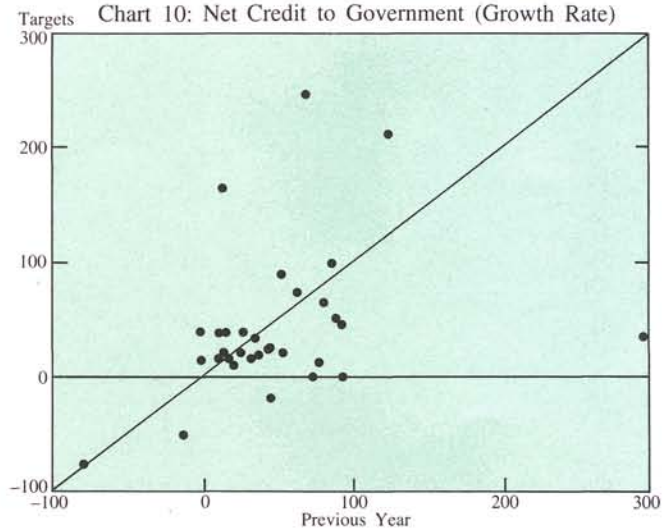

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Chart 11: Credit to Private Sector (Growth Rate)

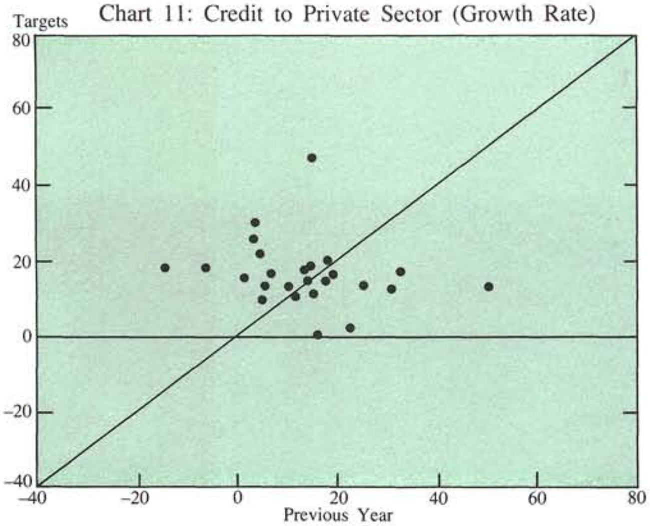


Chart 12: Net Domestic Credit (Growth Rate)

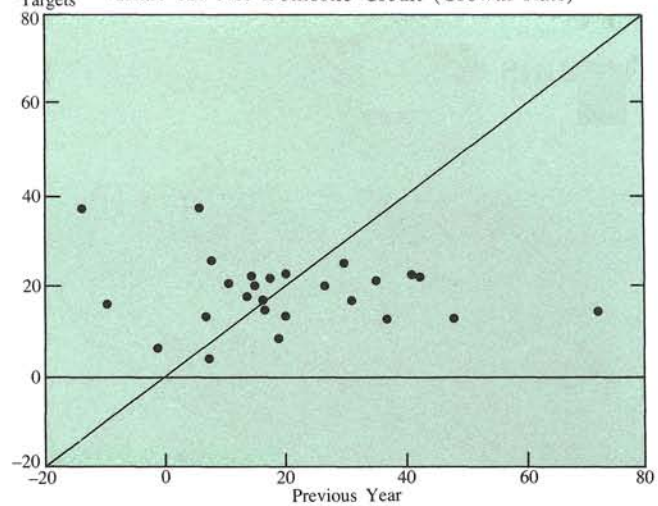


Chart 13: Domestic Liquidity (Growth Rate)

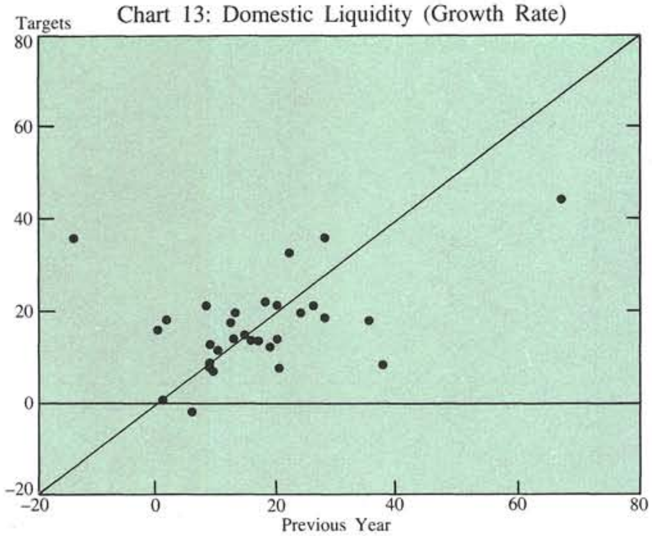
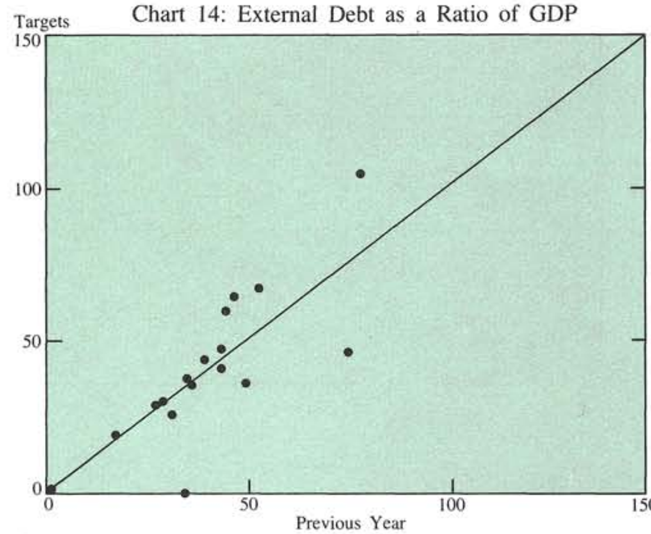


Chart 14: External Debt as a Ratio of GDP



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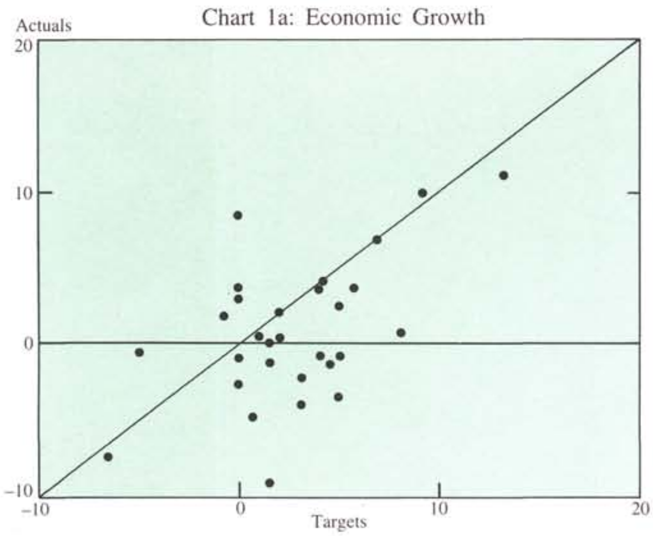
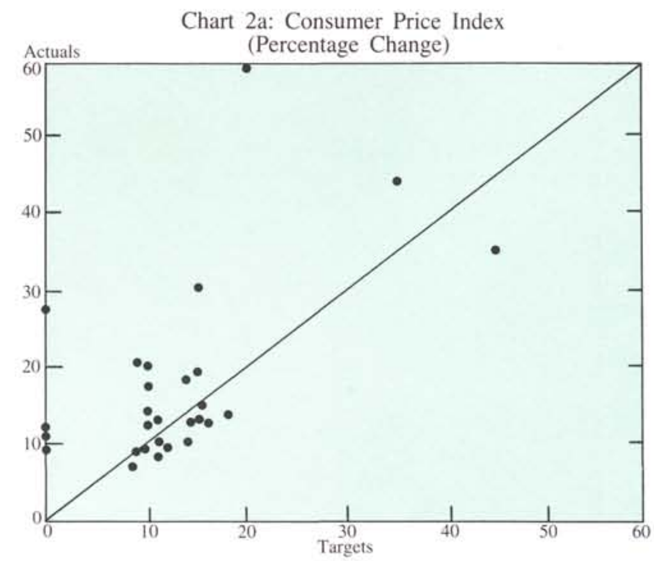
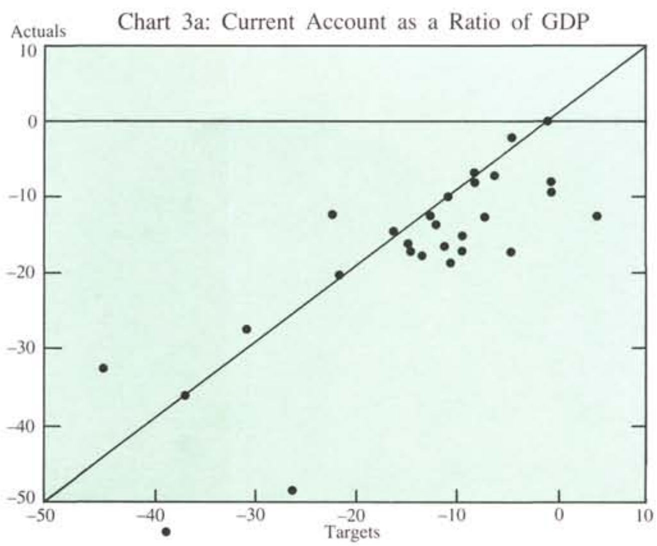
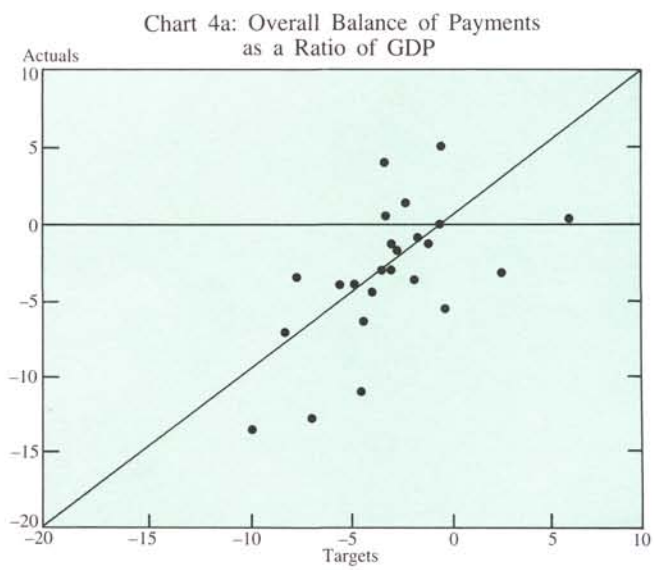
Appendix II
Actuals Compared with Targets[1]









[1]Charts show the targeted values for the program year on the horizontal axis. The actual outcome for the same program year is on the vertical axis. Points above the 45 degree line represent higher actual values than the targeted values.

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Chart 5a: Savings as a Ratio of GDP

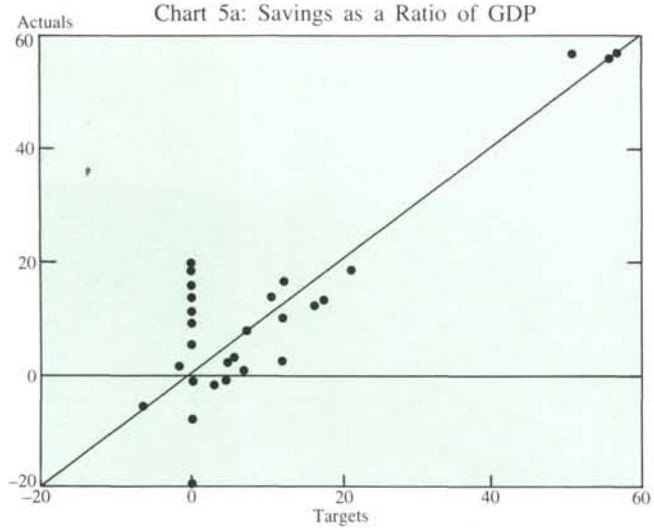


Chart 6a: Investment as a Ratio of GDP

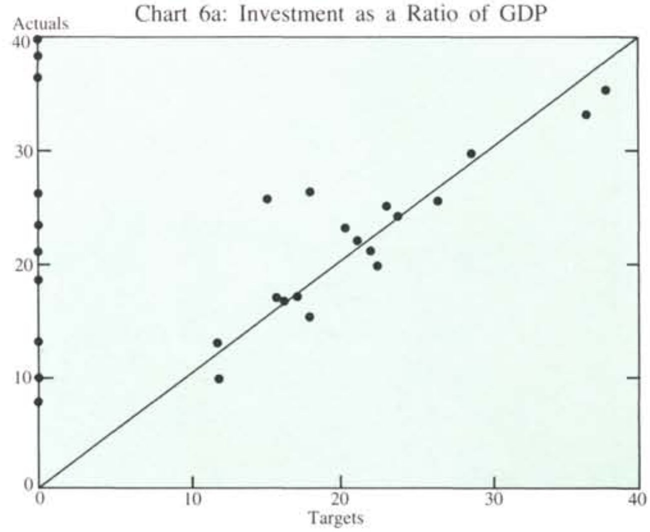


Chart 7a: Government Revenue (Excluding Grants) as a Ratio of GDP

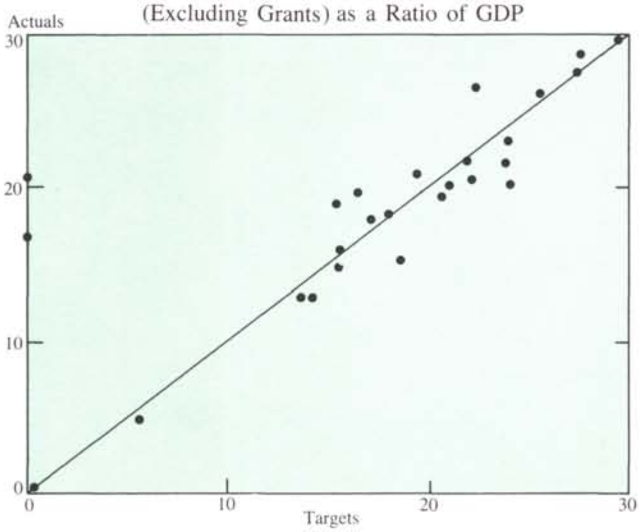


Chart 8a: Government Expenditure as a Ratio of GDP

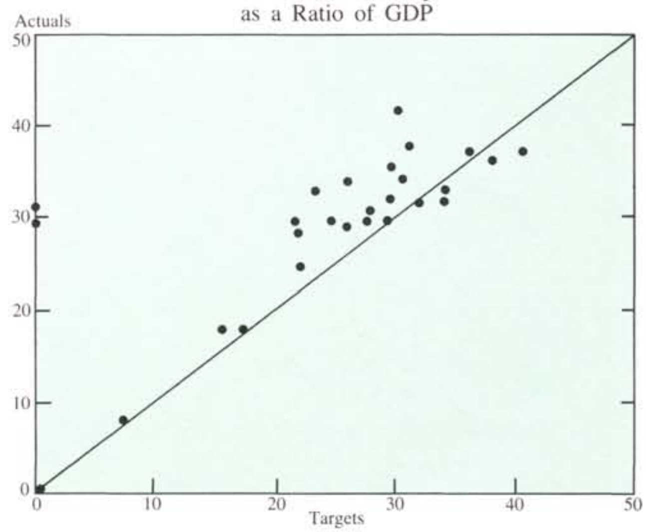


Chart 9a: Government Deficit (Excluding Grants) as a Ratio of GDP

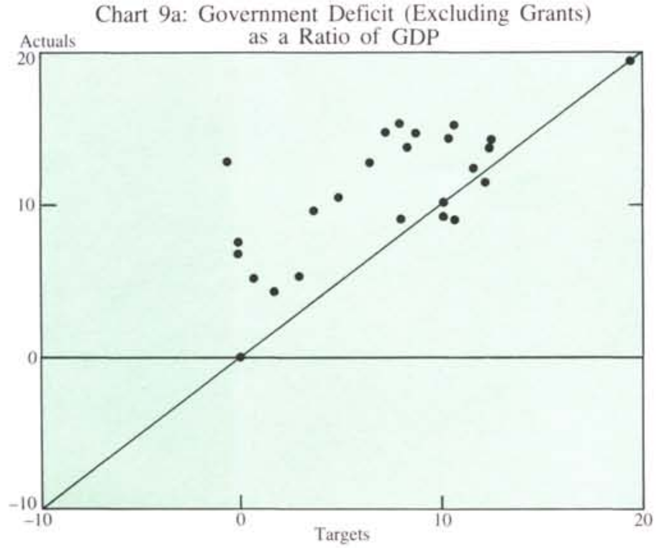
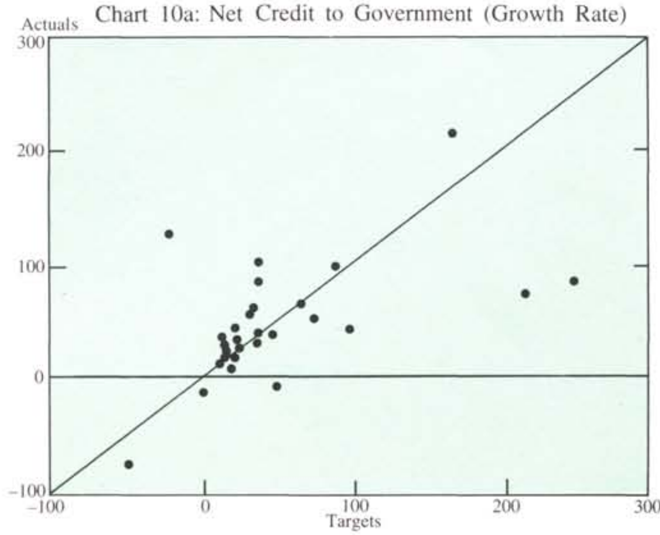


Chart 10a: Net Credit to Government (Growth Rate)



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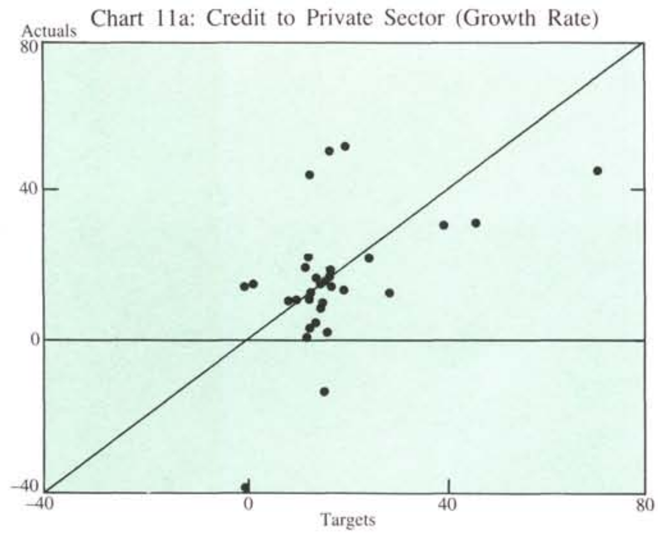

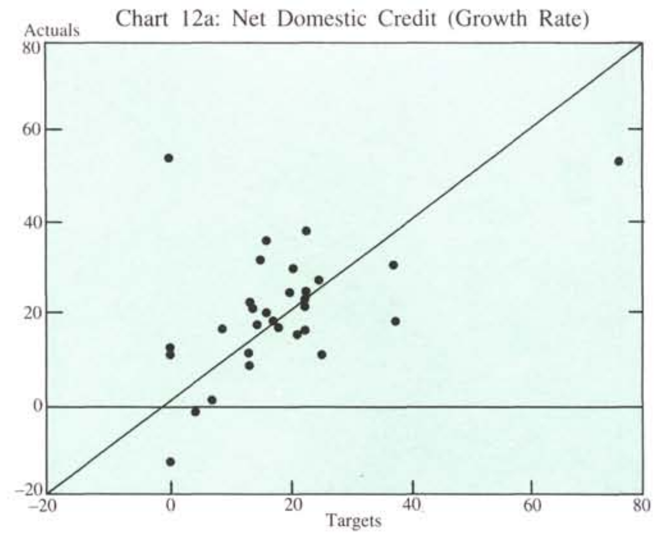

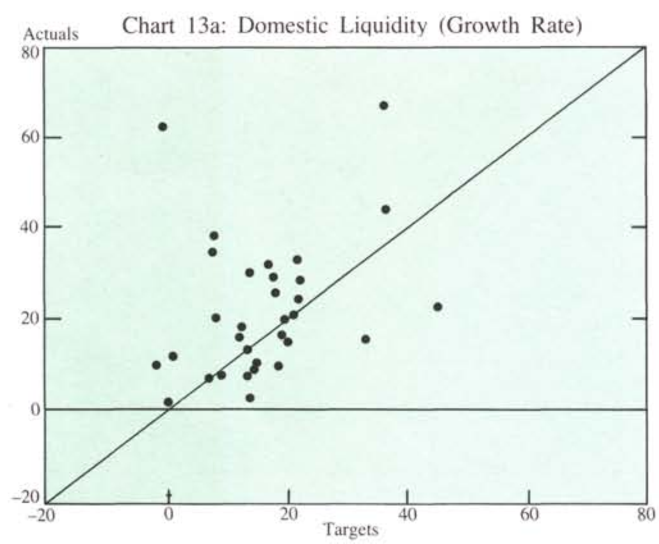

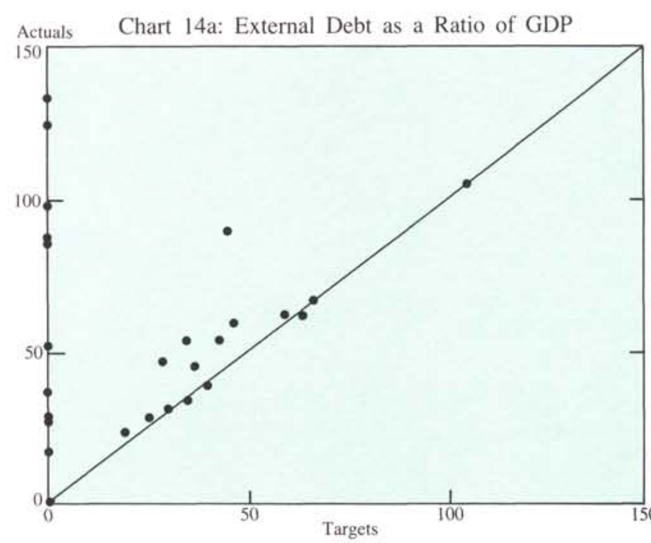

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Appendix III
Actuals Compared with Previous Year[1]

Chart 1b: Economic Growth

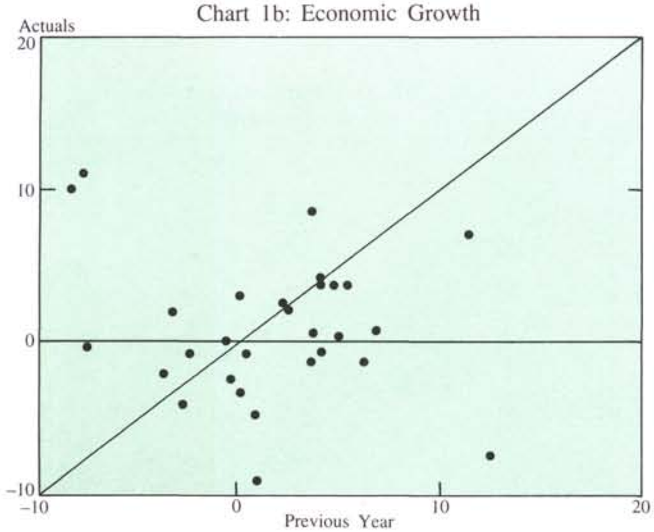


Chart 2b: Consumer Price Index (Percentage Change)

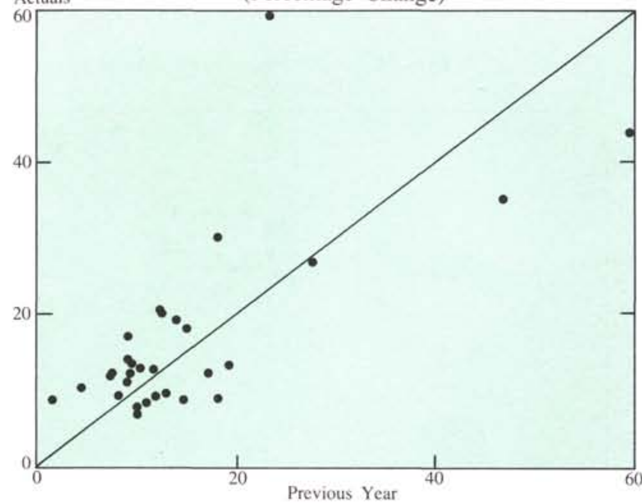


Chart 3b: Current Account as a Ratio of GDP

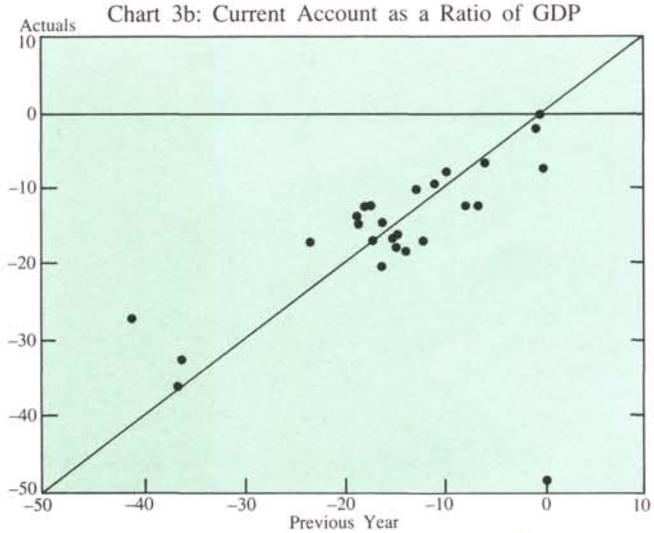
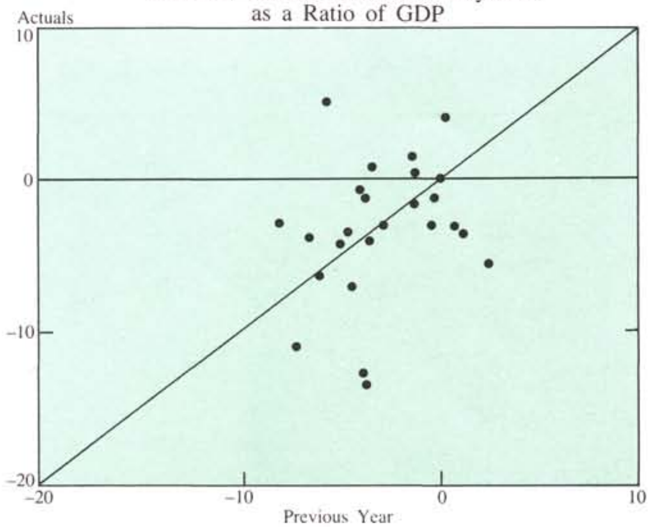


Chart 4b: Overall Balance of Payments as a Ratio of GDP



[1] Charts show the actual outcome for the previous year on the horizontal axis. The actual outcome for the program year is on the vertical axis. Points above the 45 degree line represent higher actual values in the program year than those in the previous year.

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Chart 5b: Savings as a Ratio of GDP

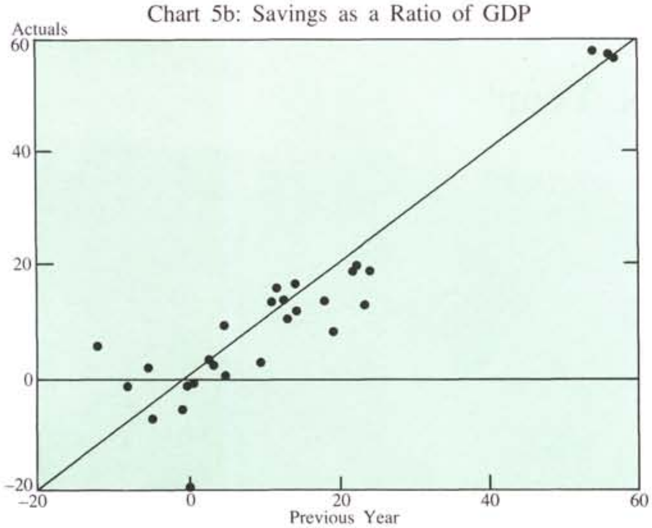

Chart 6b: Investment as a Ratio of GDP

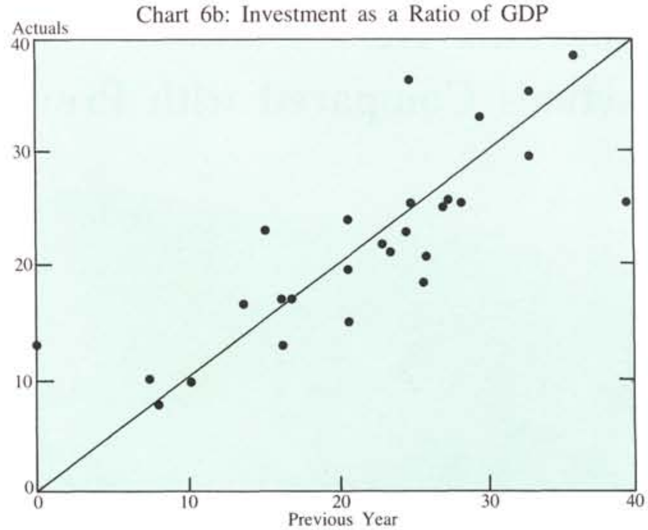

Chart 7b: Government Revenue (Excluding Grants) as a Ratio of GDP

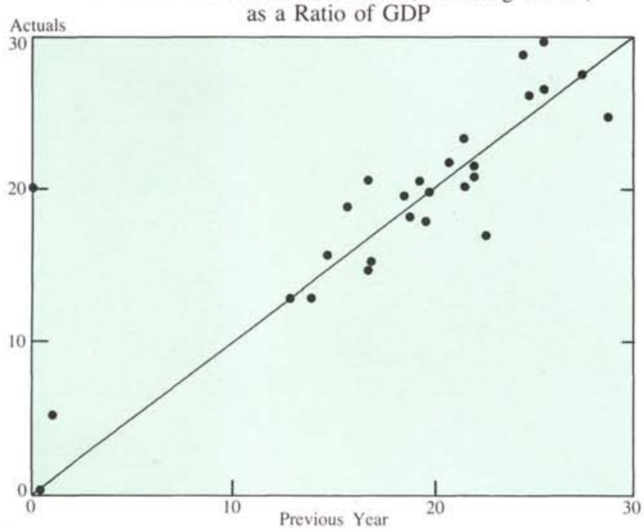

Chart 8b: Government Expenditure as a Ratio of GDP

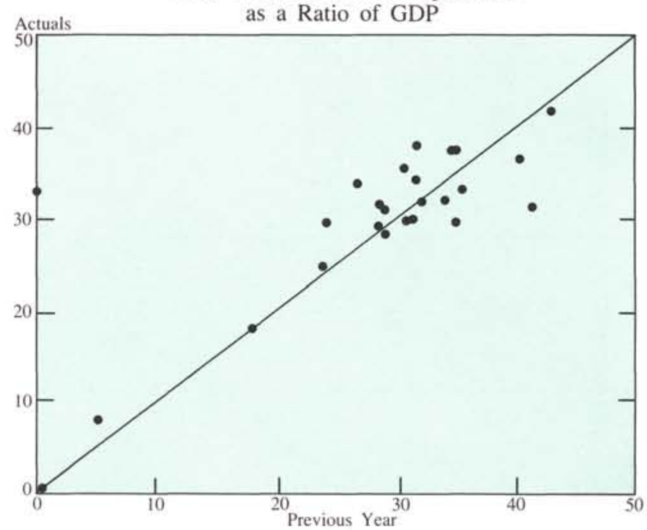

Chart 9b: Government Deficit (Excluding Grants) as a Ratio of GDP

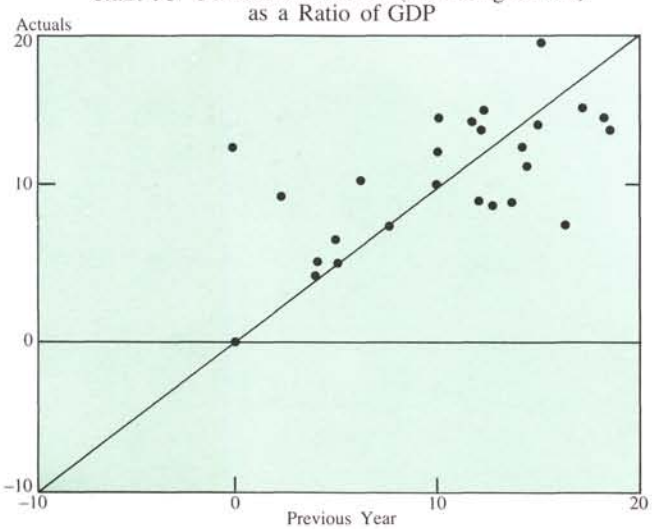

Chart 10b: Net Credit to Government (Growth Rate)

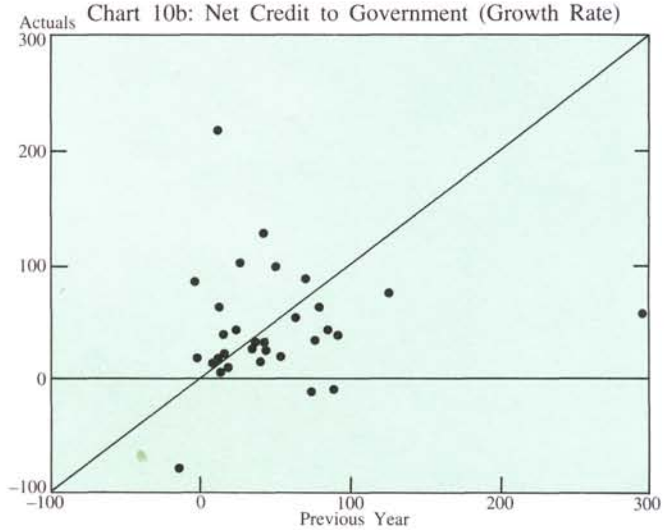

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Chart 11b: Credit to Private Sector (Growth Rate)

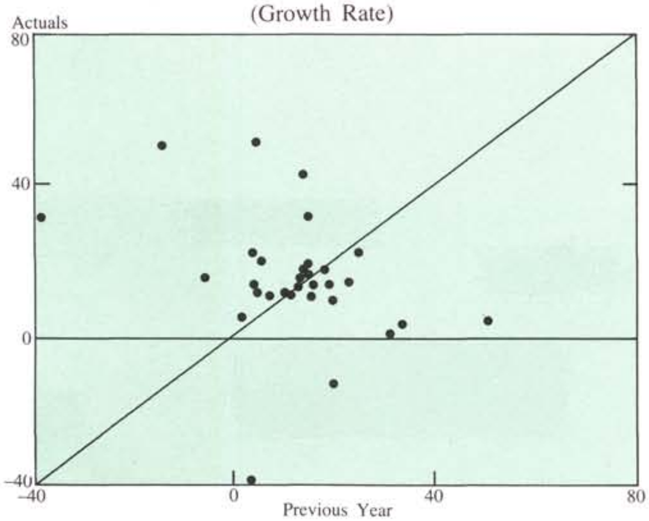


Chart 12b: Net Domestic Credit (Growth Rate)

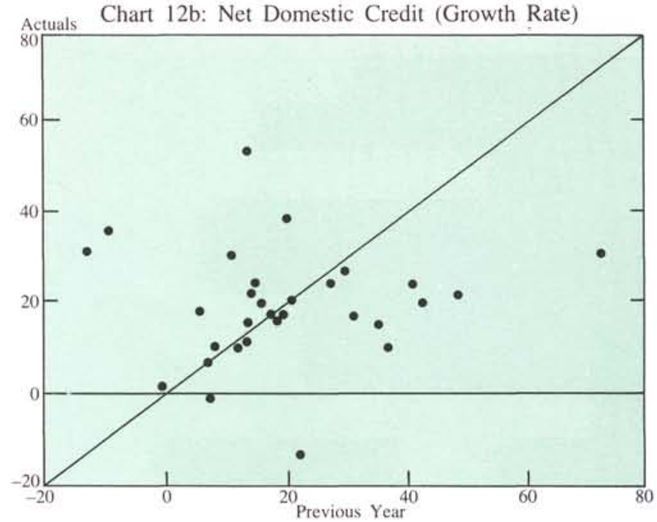


Chart 13b: Domestic Liquidity (Growth Rate)

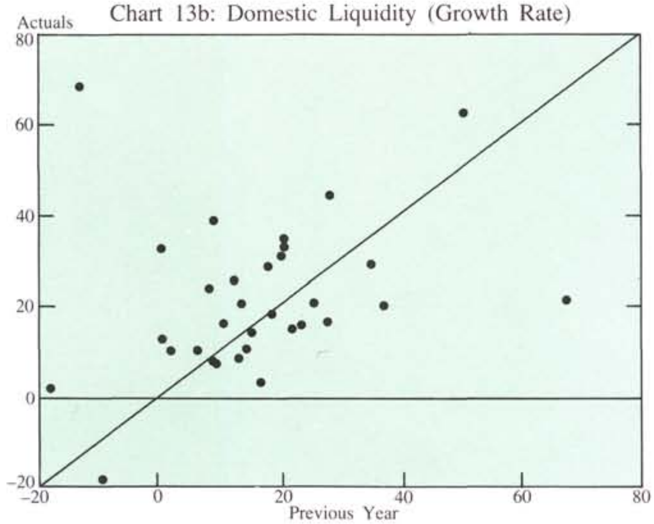
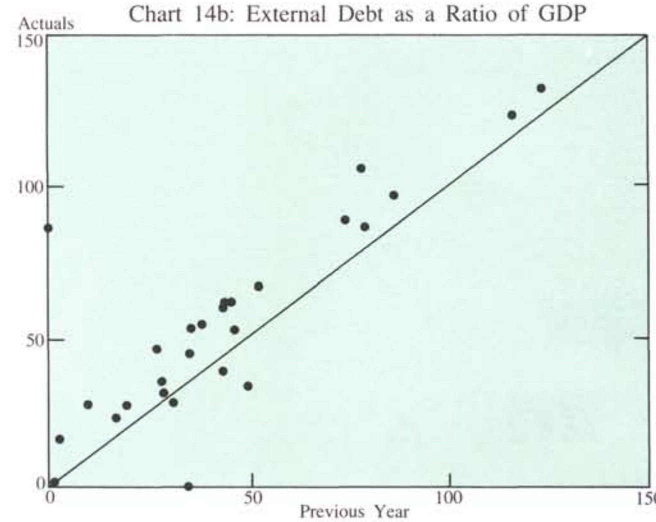


Chart 14b: External Debt as a Ratio of GDP



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