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Adjustment Programs in Africa: The Recent Experience, 1980-81

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Contents

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Contents

Page

Graphs

Contents | Page

Graphs (continued)

ADJUSTMENT PROGRAMS IN AFRICA: THE RECENT EXPERIENCE, 1980-81

Introduction

The purpose of this paper is to review the recent experience of countries in Africa in the design and implementation of adjustment programs supported by use of Fund resources 1/. The years covered are primarily 1980 and 1981. The paper is divided into six parts. In the first part the economic background leading to the emergence or aggravation of financial imbalances in these countries prior to 1980 will be briefly outlined. The second part will review the role of the Fund in financing and adjustment. In the third part the objectives of the programs supported by use of Fund resources will be examined. Against this background, the design of programs will be analyzed in the fourth part. In the fifth part the experience in implementing adjustment programs will be assessed, with a view to determining the reasons for the difficulties encountered. The sixth part, the conclusion, will summarize the main findings of this study.

The paper does not attempt to draw a distinction between stand-by and extended arrangements. It rather focuses on the calendar year during which adjustment programs were implemented. Insofar as both stand-by and extended arrangements have been formulated generally in the last few years with greater emphasis on the medium-term perspective, a distinction between these two types of arrangements need not be overemphasized.

I. Economic and Financial Situation Prior to 1980

The economic and financial problems facing the African countries prior to 1980 were manifested in sluggish economic growth, rising inflation rates, and widening deficits on the combined current account of the balance of payments. Economic growth, which averaged about 4 per cent in 1974-76, fell to around 2 per cent in 1977-79. Per capita real income, accordingly, declined during this period. The rate of inflation, which picked up from about 10 per cent in 1973 to an annual rate of about 16 per cent during 1974-76, increased further, averaging over 20 per cent during 1977-79. The combined current account deficit rose from about US$4 billion in 1974 to about US$7 billion per year in 1975-77, and widened further to close to US$10 billion annually in 1978-79. These deficits were, for the most part, financed by foreign

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, Libya, Sudan, and South Africa.

borrowing, while countries attempted to contain the reduction in reserves in absolute terms. As a result, the increase in external debt was dramatic. It rose from US$15 billion at end-1974 to US$46 billion at end-1979, with the debt service ratio nearly doubling, from 8.0 per cent in 1974 to 15.5 per cent in 1979 (Table 1). Even so, international reserves as a proportion of goods and services declined from 13.4 per cent of annual imports in 1974 to 10.0 per cent in 1979.

These deteriorating economic conditions reflected a number of adverse external factors and a number of domestic factors. During this period the international economic and financial environment tended to affect the African countries negatively. Following the sharp increase in oil prices in 1973-74, the 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 the African countries and to contribute to a softening in export prices, while prices of imports from industrial countries increased considerably. Furthermore, the increases in oil prices further directly aggravated the situation facing the African countries. With a reduced demand for exports and declining terms of trade, and with an inelastic demand for imports, the African countries faced widening current account deficits. Some countries resorted to direct import restrictions, with the result that shortages of consumer as well as intermediate and capital goods emerged. 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 had an impact on domestic financial policies, which were not promptly adapted to the emerging situation. In particular, many countries had embarked on ambitious public investment programs and had been rapidly expanding government current expenditures. In a number of countries the improving prices of primary and mineral products in the late sixties and early seventies had contributed to an increase in government revenues and export proceeds that allowed 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, leading to a widening in budgetary deficits. These 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 addressing the fundamental roots of the problems, countries generally resorted to price controls, consumer subsidies, maintenance of low producer prices, and administrative controls on

Table 1. Africa: 1/ Selected Economic Indicators, 1973-82

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
					(In per cent)					
Economic growth	2.39	6.27	2.75	5.85	2.82	1.84	1.52	2.69	1.84	1.90
Inflation	9.86	17.07	15.84	16.63	24.30	18.95	22.32	23.29	25.84	16.25
Terms of trade	8.30	7.63	-12.19	7.16	17.64	-7.25	-0.35	-7.09	-6.21	-4.74
Ratio of external debt to GDP	24.90	25.87	27.50	32.82	35.10	36.90	38.96	42.36	23.41	50.63
Debt service ratio	...	8.00	9.50	9.50	11.40	15.00	15.50	17.20	20.50	27.40
					(In billions of U.S. dollars)					
Current account	-4.50	-4.00	-7.20	-6.50	-6.60	-9.40	-9.90	-12.90	-14.00	-13.20
Net official transfers	1.10	1.50	1.70	2.00	2.30	2.50	3.10	3.20	3.60	3.20
Net capital inflows	3.80	2.60	4.90	4.40	4.90	6.30	6.40	7.10	6.80	6.80
Overall balance of payments	0.50	0.30	-0.60	-0.10	0.70	-0.40	-0.20	-2.40	-3.60	-3.20
Total outstanding debt	11.60	14.75	18.40	23.40	30.22	37.20	45.54	57.23	61.84	67.70

Sources: IMF, Current Studies Division; and World Economic Outlook, Occasional Paper No. 9

1/ This follows the IMF's International Financial Statistics classification of the African countries. These include all the African member countries, with the exception of Algeria, Egypt, Nigeria, and Libya, which are classified under different headings. In this table, South Africa is also excluded.

imported goods, and, in many cases, retained exchange rates that were incompatible with financial stability. Parallel markets for goods and foreign exchange widened, generating considerable distortions and contributing to a slowdown in economic activity.

Clearly, then, as the African countries entered the decade of the 1980s, they faced major financial and structural problems that urgently needed to be addressed. In the subsequent sections the experience of these countries in adjusting is examined. However, for the region as a whole, the international economic environment together with the delay in adopting policies to cope decisively with its problems, led to a continued deterioration in the imbalances in Africa.

II. The Role of the Fund 1/

A number of African countries worked closely with the Fund to design and implement appropriate adjustment programs during 1980-81. At the beginning of 1980 there were 12 stand-by arrangements; the total amount committed 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 the number of stand-by and extended arrangements were 10 and 3, respectively, for a total amount of SDR 1.8 billion. With the increase in the number of extended arrangements and the approval of new stand-by arrangements in 1981, the numbers of stand-by and extended arrangements in effect at end-1981 were 10 and 5, 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 accordingly relatively limited. A large number, 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.

When a country faces an external sector disequilibrium, this is manifested in a rise in the current account deficit requiring resort to increased external borrowing to finance the disequilibrium. If the disequilibrium resulted from permanent factors, this financing would have to continue indefinitely, if a country were not to take the necessary

1/ See Guitian (1981), Kanesa-Thasan (September 1981), Makalou (1982, 1983), and Nsouli (1982).

Table 2. Africa: Stand-By Arrangements and Arrangements Under Extended Fund Facility at End of Year, 1979-82

(In millions of SDRs)

	Stand-by and extended Fund facility	Date of agreement	Expiration date	Amount agreed	Amount purchased	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	600.00	75.00	525.00
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	3.07	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
Zaire	SBA	Aug. 27, 1979	Feb. 26, 1981	118.00	20.00	98.00
Zambia	SBA	April 26, 1978	April 25, 1980	250.00	200.00	50.00
1980						
Central African Republic	SBA	Feb. 15, 1980	Feb. 14, 1981	4.00	4.00	--
Egypt	EFF	July 28, 1978	July 27, 1981	600.00	75.00	525.00
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, 1983	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
Zaire	SBA	Aug. 27, 1979	Feb. 26, 1981	118.00	98.40	19.60
1981						
Ethiopia	SBA	May 8, 1981	June 30, 1982	67.50	44.00	23.50
Ivory Coast	EFF	Feb. 27, 1981	Feb. 22, 1984	484.50	176.70	307.80
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	7.30	40.20
Uganda	SBA	June 5, 1981	June 30, 1982	112.50	77.50	35.00
Zaire	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	--
1982						
Gambia, The	SBA	Feb. 22, 1982	Feb. 21, 1983	16.90	16.90	--
Guinea	SBA	Dec. 1, 1982	Nov. 30, 1983	25.00	11.50	13.50
Ivory Coast	EFF	Feb. 27, 1981	Feb. 22, 1984	484.50	292.10	192.40
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	7.30	40.20
Uganda	SBA	Aug. 11, 1982	Aug. 10, 1983	112.50	50.00	62.50

[illegible]

Table 3. Purchases and Repurchases by African Countries, 1979-82

(In millions of SDRs)

	1979		1980		1981		1982	
	Purchases	Repur- chases 1/	Purchases	Repur- chases1/	Purchases	Repur- chases1/	Purchases	Repur- chases1/
Benin	--	--	1.94	--	--	--	--	--
Burundi	9.5	--						
Cameroon	--	11.39	--	12.85	--	8.48	--	2.95
Central African Rep.	--	2.38	5.85	4.39	17.00	3.07	2.40	0.60
Chad	--	1.24	--	2.18	7.10	5.43	--	--
Comoros	--	--	0.48	0.48	0.30	--	--	--
Congo	2.0	1.14	--	5.34	--	6.75	--	--
Egypt	--	51.22	--	78.93	--	77.92	47.03	43.92
Equatorial Guinea	--	0.24	9.53	--	7.20	0.85	1.26	1.27
Ethiopia	36.0	--	--	--	66.10	--	23.50	2.25
Gabon	7.5	--	--	--	--	--	--	1.99
Gambia, The	--	3.52	1.60	--	9.00	--	16.90	2.24
Ghana	44.63	22.93	--	9.65	--	9.65	8.47	4.83
Guinea	2.97	4.40	--	1.10	0.58	5.01	15.91	4.57
Guinea-Bissau	1.10	--	--	--	2.35	--	--	0.28
Ivory Coast	--	--	12.22	--	328.70	--	115.43	--
Kenya	86.25	30.59	60.00	6.98	30.00	7.17	150.38	16.89
Lesotho	--	--	--	--	--	--	2.02	--
Liberia	29.75	--	18.40	2.40	47.54	2.16	64.41	--
Madagascar	--	3.73	39.20	1.51	39.00	7.43	57.73	5.39
Malawi	22.07	0.76	24.38	0.93	30.00	6.36	14.69	12.62
Mali	--	1.75	5.10	2.25	--	2.25	25.38	1.06
Mauritania	--	0.89	19.40	6.71	10.30	6.94	18.76	3.69
Mauritius	27.97	--	35.00	--	68.00	11.00	28.01	5.49
Morocco	--	23.20	184.50	67.35	192.76	53.40	433.28	32.50
Nigeria	--	--	--		--		308.71	
Rwanda	--	--						
Senegal	14.75	8.74	43.25	6.36	57.74	6.36	53.17	13.33
Sierra Leone	7.50	7.27	9.50	9.22	33.70	9.22	5.13	5.28
Somalia	--	--	6.00	--	25.88	--	37.00	4.75
Sudan	83.15	33.70	142.80	34.70	165.55	19.03	71.85	30.15
Swaziland	--	--	--	--	--	--	4.28	--
Tanzania	34.00	13.03	40.00	25.03	15.90	26.34	1.74	11.12
Togo	--	--	16.58	--	7.25	--	--	--
Tunisia	--	--	--	24.00	--	--	--	--
Uganda	10.58	8.00	37.50	10.00	122.50	10.31	85.00	1.51
Upper Volta	--	--						
Zaire	20.00	31.47	78.40	65.45	194.60	103.78	131.61	22.07
Zambia	100.00	26.29	50.00	44.03	359.30	47.32	41.50	86.20
Zimbabwe	--	--	32.49	--	37.50	--	--	--
Total	539.72	287.88	874.13	421.83	1,875.86	436.22	1,765.55	316.95
Total (excluding Egypt and Sudan)	456.57	202.96	731.33	308.20	1,710.30	339.27	1,646.67	242.88

Source: IMF, Bureau of Statistics.

1/ Repurchases do not include repurchases other than those relating to outstanding purchases.

measures to adjust. However, as the external debt of a country rises, a point would eventually be reached where its ability to service the debt would be impaired and, accordingly, its creditworthiness undermined. Under such conditions the ability to continue to finance an external sector disequilibrium would cease. If it were not to adjust, the country would, therefore, be forced to impose strict controls on imports, the shortage of which would exacerbate underlying inflationary pressures. Furthermore, in the case of developing countries that are heavily dependent on imports of intermediate manufactured and capital goods, economic activity and investment would suffer, leading to a sharp fall in economic growth.

It follows, therefore, that financing as such is not a solution to a disequilibrium; it only postpones and magnifies the problem and, in due course, leads to a greater disruption of the economy than if adjustment was taken promptly. Accordingly, the choice facing countries is not between adjustment and financing but between prompt, gradual, and orderly adjustment, on the one hand, or abrupt and disorderly adjustment on the other. The costs to the economy, in the latter case, both in terms of the rising debt burden, the emergence of large distortions, and the abrupt shock to the economy when financing ceases, are too high. Yet too many African countries have 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.

From the short survey of the economic problems facing the African countries, it is clear that the extent of the imbalances had increased and that, therefore, the required adjustment effort had also increased. The Fund has recognized that the deep-seated structural problems and the size of the imbalances facing the African countries required longer time periods for adjustment. The question of the time period over which adjustment should take place, other things being equal, is crucial. On the one hand, a very short span of time for attaining equilibrium could impose severe costs on a country, in terms of rapidly deflating the domestic economy. On the other hand, attempting to stretch out the period of adjustment indefinitely would result in a situation very close to that of pure financing, a "non-solution." Between these two extremes, there is an optimal trajectory defining a time span that will minimize the economic costs of adjustment. Although it is extremely difficult to determine such a trajectory in practice with any significant degree of precision, every Fund-supported program--including those considered in this paper--has attempted to place the economy concerned on such a trajectory within the constraints of available information. 1/

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

Because in many developing countries the lack of foreign exchange may impede the country from following such an optimal adjustment path, the Fund provides the necessary financing. It is because of these considerations that the Managing Director of the Fund has repeatedly stressed that financing and adjustment must go hand-in-hand.

The guidelines on conditionality, which were reformulated in 1979, emphasize that there was 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 a one- or two-year stand-by arrangements were required; that a flexible approach to the treatment of external borrowing in adjustment programs needed to be adopted; and that due regard had 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 the application of conditionality has been maintained, and, in line with a number of discussions by the Executive Board, by the Interim Committee, and by the Board of Governors, greater emphasis has been given to providing increased financing to countries over a sufficiently long time horizon while formulating programs that pay considerable attention to supply-oriented policies that meet the development aspirations of developing countries and to the ways and means to reduce the burden of adjustment. 1/ These considerations are fully reflected in the programs adopted by the African countries during 1980-81.

III. The Objectives of Programs

The general objectives of adjustment programs supported by use of Fund resources are summarized in Article I of the Articles of Agreement of the Fund. 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)
>
> and
>
> "to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members." (Article I, sec. vi).

1/ See Guitian (1981) and Nsouli (1982).

While the Fund provides resources in support of policies designed to carry out an appropriate adjustment program, a primary concern of the African countries that adopted programs supported by uses 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 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. Again, therefore, the sustainability of economic growth 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 balance.

Domestic and external financial stability are clearly interlinked. A high rate of inflation is a reflection of excess demand pressures which would also be manifested in the external sector. Similarly, a low rate of inflation could not be sustained indefinitely with an external deficit, as the inflow of goods and services would have to be curtailed in due course, leading to an acceleration in inflation. Given this interdependence, if a sustainable external financial position is reached, it follows that a sustainable position of domestic financial stability has also been reached. The inter-linkage can be seen from the fact that the current account position is the mirror image (and definitionally equal) to the difference between domestic investment and national savings.

The countries under consideration had an external current account deficit that reflected an excess of domestic investment over national savings. This was 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 given level of the 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 objectives were generally to promote economic growth, to reduce inflation, and to effect an improvement in the current account position over the medium term. The emphasis given to economic growth in the programs under consideration can be seen from Graph 1; 1/ most programs targeted for an increase in economic growth during the program year as compared with the previous year. Nearly all programs attempted to contain inflation to about 15 per cent per annum as a target; however, as shown in Graph 2, while a number of programs targeted for a reduction in inflation, an almost equal number allowed for an increase in inflation over the previous year. This may have reflected a certain degree of pragmatism as to how much, if at all, inflationary pressures could be controlled in the span of one year, particularly if cost-push elements were relatively important determinants. Although programs did not always attempt to bring about an improvement in the current account position, as can be seen from Graph 3, or for that matter in the overall balance of payments in the span of one year, in general the emphasis has been on targeting for an improvement. In particular, in supply-oriented programs, an expanded level of investment financed by external financial assistance could involve an increase in associated imports contributing to a short-term widening of the current account deficit. However, such investment could be viewed as contributing to the productive capacity of the economy and as being conducive to increased exports or reduced imports over the medium term. In sum, these diverse quantitative targets confirm that Fund programs have tailored adjustment to the particular circumstances of the country.

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 the setting of specific quantitative objectives and selecting the proper mix of instruments as well as the intensity with which each instrument is used. In this sense, since 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 this proviso in mind, a discussion in general terms can take place with respect to the policy areas that were covered in recent Fund-supported programs in Africa. Since most of the African countries under

1/ All graphs are shown in Appendices I-III.

consideration faced, and continue to face, deep-rooted structural problems, the policies have emphasized supply-oriented measures designed to bring about structural changes; the accompanying financial policies needed to be set to reinforce the structural adjustment measures. 1/

Since economic growth is heavily dependent on the level of domestic capital formation, provided that the investment undertaken is allocated efficiently, the programs incorporated measures to strengthen the devellopment planning process in order to help promote economic growth. In this regard, the Fund relied mostly on the expertise of the World Bank. In addition, to improve resource allocation and mobilize domestic savings, as well as to encourage private sector investment, the programs paid close attention to pricing policies. A number of the countries maintained extensive systems of price controls and subsidies; such policies concealed the inflationary pressures only temporarily, leading to shortages and contributing to a misallocation of resources. Furthermore, to the extent that such controls resulted in low agricultural producer prices, agricultural production was also discouraged. 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 that exist between demand and supply.

In the programs under consideration, close attention was paid to maintaining or increasing the ratio of savings to GDP. As can be seen from Graph 5, most programs targeted for the maintenance or the increase in the ratio of savings to GDP. In some cases, this ratio was expected to decline; this was due in a number of instances to an expected reduction in "enforced" savings, resulting from a liberalization of trade. The investment ratio target, compared with the previous year, shows a wider dispersion. In a number of countries, it was felt that an immediate increase in investment could contribute 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 cases, the programs aimed at containing investment to more realistic levels.

In most of the countries under consideration, public sector enterprises played an important role in production. The rationale for these enterprises was that, at the early stages of development, the private sector was not in a position to undertake a number of economic functions. However, over the years, a number of public enterprises in several countries had incurred substantial losses which had been borne directly or indirectly by the central government budget. In the context of a number

1/ See Makalou (1982, 1983) and Nsouli (1982).

of these programs, the authorities started carefully reviewing the operations of public enterprises. In discussions of the programs, there has invariably been a consensus that these enterprises have to operate efficiently and profitably. Their operations have, in a number of cases, been streamlined. In other cases, where the public enterprises were considered to be not viable on efficiency grounds, they were phased out. Clearly, public enterprises cannot be judged solely on efficiency grounds, as in a number of cases these enterprises provided vital social services. However, social 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 the 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 has played a dominant role in the economy in most African countries, through both its current and capital operations. In many of the cases under consideration, revenues had not fully covered expenditures, with the result that there had been a significant recourse to both domestic and foreign financing of the budgetary deficit. Financial stability could not be re-established unless the excessive expansionary impact of fiscal policy had been brought under control. The programs have, therefore, paid considerable attention to possible fiscal measures aimed at improving the fiscal position. On the revenue side, a number of programs have included tax measures designed to expand the domestic revenue base and increase the elasticity of the tax system. Improvements in tax collection procedures have also, in most cases, contributed considerably to the tax revenues available to the Government. On the expenditure side, there had been an emphasis in many cases on limiting the growth in current expenditures through the institution of careful administrative expenditure controls, the reduction in new government hiring, restrained salary adjustments, and a reduced expansion in real administrative expenditures. Capital expenditures have generally been assessed against the availability of resources and carried out within the context of the macroeconomic framework of the development plan.

The thrust of fiscal policy in the programs under consideration can be seen from Graphs 7-9. The proportion of government revenue (excluding foreign grants) to GDP was targeted to increase in most cases. However, where economic conditions did not allow for an immediate increase in the program year, the revenue ratio was targeted to drop (Graph 7). In most of the countries under consideration, while the domestic revenue ratio was under 25 per cent, the ratio of expenditure to GDP was generally in excess of 25 per cent. 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 (Graph 8).

Because of the attempt to improve revenues and contain expenditure increases, nearly all programs targeted for a reduction in the ratio of the government deficit (excluding grants) to GDP (Graph 9).

Monetary policy has been heavily dependent on fiscal developments in many of the countries under consideration. The expansion in domestic credit has generally been a function of the level of credit utilized by the Central Government to finance the budgetary deficit. The flexibility of the monetary authorities in conducting monetary policy was, therefore, generally limited to the credit provided to the private sector in order to offset in part the impact of the expansion in credit to the government sector. Thus, the government sector tended, in certain instances, to crowd out the private sector from access to credit. As a result, the private sector was unable to obtain the credit it needed 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 contribute to the promotion of economic growth.

The diversity of monetary policies under Fund programs is illustrated in Graphs 10-13. Nearly as many programs allowed for a higher rate of net credit growth to the Government as those that allowed for a lower rate (Graph 10). However, for countries where credit to the private sector had grown at about 10 per cent or less in the previous year--and these constituted the majority of the program countries--the programs targeted for an increase in the rate of growth 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 per cent in the preceding year were targeted to reduce that to about 20 per cent or less, while those that had a rate of less than 20 per cent were targeted to have an expansion rate greater than in the previous year. The domestic liquidity growth targets, reflecting both the interdependent targets of domestic credit growth and the changes in net foreign assets, do not allow for any significant generalizations; the rate of growth was targeted to increase in nearly as many countries as it was targeted to decrease (Graph 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 had an adverse impact on the economy, as it tended to result in resource misallocation and financial disintermediation. In addition, in view of the high interest rates prevailing internationally, this may have resulted in some cases in a tendency for outward capital flows and a failure to attract private sector capital from abroad--although, admittedly, private capital flows would depend on factors other than just the interest rate. The programs reviewed the interest rate policy in order to assist the authorities in determining the most appropriate interest rate structure for their economies. In a number of programs, domestic interest rates were revised upward.

In terms of external sector policies, the programs had three main issues to address. These were the restrictions on current international transactions, the exchange rate policy, and external debt. The imposition of restrictions on international current transactions usually becomes inevitable because of the imbalances that exist in the economy, since, at the prevailing exchange rate, a removal of these restrictions would lead to a shortage of foreign exchange in the country and, therefore, to pressures on the exchange rate. Accordingly, restrictions are symptomatic of the need for adjustment. The exchange rate is one of the important factors 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. These factors have a detrimental impact on economic growth. The appropriateness of the exchange rate level, therefore, has been carefully reviewed in the context of the programs under consideration. In several cases, exchange rate action was taken. A notable example is Somalia, which devalued its currency by 150 per cent in domestic currency terms during 1981-82. Uganda also devalued its currency by about 100 per cent over the period May 1981-June 1982. In both instances, dual exchange rate systems were introduced on a temporary basis. If exchange rate action was taken, such action was supported by appropriate financial and economic policies to reinforce its contribution to the adjustment process. Finally, given the importance of external borrowing for achieving a sustainable external debt position, Fund-supported programs aimed at containing the debt burden to levels consonant with the debt-servicing capacity of the country. In this connection, when countries had accumulated external payments arrears, the programs provided for the gradual elimination of these arrears. As can be seen from Graph 14, most programs attempted to avoid a significant increase in the ratio of external debt to GDP.

V. Performance Under Programs

The performance under programs is difficult to assess, insofar as the assessment is dependent on the yardstick selected. Guitian (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 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.

Graphs 1a-14a provide an idea of the achievements compared with the targets. The results generally indicate that in many cases the performance fell considerably short of targets. In most countries, economic growth was well below target levels, although there are a number of exceptions where the performance exceeded the targets (Graph 1a). On inflation--as measured by the consumer price index--the results were mixed; inflation was nonetheless maintained below 20 per cent in most countries (Graph 2a). Similarly, the target with regard to the current account position as a proportion of GDP was not achieved in most countries, as can be seen from Graph 3a. The results with regard to the overall balance of payments position as a proportion of GDP show that the target was met in as many cases as not. In sum, as far as the objectives of programs are concerned, there has generally been a shortfall in economic growth, the inflation targets have mostly been exceeded, and the external sector targets have not always been attained.

Turning to policy indicators, the ratios of savings and investment to GDP were generally close to targets. 1/ With regard to fiscal policy, revenues (excluding grants) as a proportion of GDP were in most cases close to targets. However, the ratio of expenditure (excluding grants) to GDP was generally exceeded. Because of this, the budgetary deficit (excluding grants) as a proportion of GDP was considerably exceeded in most countries. 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 cases. In most cases, domestic liquidity growth was, therefore, considerably above target. Insofar as external debt is concerned, the data indicate that nearly all countries exceeded the targets.

Given these deviations from targets, how did the countries perform relative to the previous year (Graphs 1b-14b). In terms of economic

1/ The dots on the zero point of the target axis in the graphs indicate that no targets were set.

growth, there was a considerable improvement in a number of countries but a decline in most. Inflation worsened in over half the countries. In the external sector, neither the current account position nor the overall balance of payments appear to have improved or worsened significantly in most countries.

Turning to the indicators of policy, no major changes took place with regard to savings and investment. Government revenue as a ratio to GDP did not deviate significantly, though government expenditure as a ratio to GDP remained equal or increased in most countries. Accordingly, although there was no change or improvement in most cases in the government deficit (excluding grants) as a proportion of GDP, there were several instances where the budgetary position improved significantly. On the monetary front, net credit growth to the government sector remained about equal or declined, while credit growth to the private sector for most countries was nearly equal to or exceeded the previous year's rates. Overall net domestic credit expansion was in most cases nearly equal to or less than the previous year's. Graph 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 (Graph 14b).

From these diverse results it is hard to generalize as to whether in a one-year period there was an improvement or deterioration in the economic situation of the countries adopting Fund programs; the results seem to be nearly evenly divided. It is, therefore, essential to examine the reasons for these deviations. Table 4 provides information on targets and performance, as indicated by economic growth, inflation, and the current account position, as well as on two financial instruments, namely the budgetary deficit (excluding grants) as a proportion of GDP and the rate of growth of net domestic credit. Is there a correlation between the attainment of the objectives and the observance of policy measures? Table 4 clearly indicates the existence of a marked relationship. In 14 cases where either or both of the two policy measures were observed, two or three targets were attained. In 9 cases where the policy measures were not observed, two or more of the objectives were not attained. Accordingly, we find a close correlation in 23 of the cases. The relationship was not established in only 7 cases.

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 attained. These factors could be classified essentially under five headings, namely, unforeseen developments, insufficient political commitment, limitations in the administrative infrastructure, overoptimistic program targets, and delays in inflows of development assistance. Notwithstanding such problems, however, a number of countries

Table 4. Indicators of Performance Under Adjustment Programs in Africa 1980-81

	Targets									Instruments								
	Economic growth (1)			Inflation (2)			Ratio of current account deficit to GDP (3)			Ratio of budgetary deficit (excluding grants) to GDP (4)			Net domestic credit growth (5)			Two or three targets attained (6)	One or two instruments attained (7)	Targets and instruments simultaneously attained (8) 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	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
Zaire	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
G or A	18	5	12	12	13	17	9	11	15	5	8	17	16	16	17	14	20	14
L or N	8	21	18	15	15	16	18	18	14	21	19	12	15	15	18	16	13	9

Code: G Greater than 1. T/P = Ratio of target to previous year.
L Less than 1. A/T = Ratio of actual outcome to target.
A Attained. A/P = Ratio of actual outcome to previous year.
N Not attained X = Targets attained but instruments not attained, or vice versa.

1/ In some instances, where information was incomplete, judgemental assessments were utilized.
Column 8 indicates simultaneous attainment or lack thereof of targets and instruments in columns 6 and 7.

readapted their policies and successfully carried out their adjustment programs.

By far the most important factor resulting in the 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 instance, in Liberia a higher-than-expected increase in oil prices led to the emergence of losses in the energy-intensive iron ore sector. This, in turn, contributed to a fall in tax revenue, making the attainment of 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. In Madagascar the soft demand for coffee on the international market adversely affected both the quantity demanded and export prices and led to a shortfall in export receipts. In Malawi the failure of the maize crop resulted in an increased demand for imported maize. Furthermore, the increase in international interest rates also contributed to budgetary and balance of payments pressures. The implementation of the program with Mauritius was adversely affected by two factors, namely, the increase in the oil bill due to the increases in international prices and the cyclones that led to a sharp fall in sugar output and hence exports. Morocco suffered during the implementation of its programs from a slackened world demand for phosphate, which led to a shortfall in phosphate export receipts. Furthermore, during the program period agricultural output was adversely affected by a drought. Higher-than-envisaged international interest rates also added to the budgetary and external sector imbalances. The appreciation of the U.S. dollar resulted in an increase in the domestic subsidy of basic consumer goods. Concomitantly, disturbances on the border resulted in higher-than-projected defense outlays. In Senegal performance under the Fund program fell short of targets partly because of a drought. Sierra Leone also suffered from a weakening of export prices and unexpectedly high levels of rice imports made necessary by unfavorable weather conditions. Similarly, in Tanzania export prices turned out to be lower than projected. In the case of Togo export performance suffered because of shortfalls in both the quantity and the price of exports. In Zaire there was an unfavorable evolution of export prices and capital inflows fell short of expectations. Zambia's performance was affected by the sharp decline in copper and cobalt prices, the two main export commodities, while debt service payments increased sharply, due, in part, to the rise in international interest rates. In Zimbabwe, which is a landlocked country, a disruption of the transport system imposed severe constraints on the implementation of the program.

The second most important factor was the difficulties that Governments encountered in mobilizing political forces behind their adjustment efforts. This is most apparent with regard to the fiscal implementation of programs. In the Central African Republic, Ethiopia, Equatorial Guinea, Kenya, Madagascar, Malawi, Morocco, Senegal, Sierra Leone, Togo, Zaïre, and Zambia it proved difficult to contain the level of expenditures to that envisaged in the program. Furthermore, revenues tended to fall short of expectations because in a number of cases the introduction of tax measures was delayed or the improvements in enforcing tax collection could not be effected with the expected determination.

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.

During the implementation of the programs, certain indicators were used to determine whether it was progressing satisfactorily. Whenever these indicators deviated from the targets, consultations with the Fund would be triggered to review whether additional measures were needed to help keep the adjustment effort on track. The indicators used, usually referred to as "performance criteria," are shown in Table 5. In virtually all programs, two basic indicators were used: (1) net credit to the Government sector, and (2) net domestic credit or net domestic assets. In addition, in a number of cases quantitative limits were set on external loans contracted and on external payments arrears. In rare instances, where it was regarded as applicable, subceilings on credit to the private sector were used, and limits on import payments arrears, the ratio of the government budgetary deficit to GDP, and government payments

Table 5. Quantitative Performance Criteria Utilized in Programs in Africa, 1980-81

	Net domestic assets	Net domestic credit	Net credit to Government	Net credit to public sector	Credit to private sector	External loans contracted	External payments arrears	Import payments arrears	Government deficit (including grants)/GDP	Government payments arrears/GDP
Central African Republic		X	X			X	X			
Equatorial Guinea			X							
Ethiopia		X	X							
Gabon		X	X			X				
Gambia, The		X	X				X			
Ivory Coast	X			X		X				
Kenya			X		X 1/	X				
Liberia	X 2/		X 2/							
Madagascar			X		X					
Malawi	X		X			X				
Mauritania		X	X							
Mauritius		X	X			X 3/				
Mauritius		X	X			X 3/				
Morocco		X	X			X				
Senegal		X	X			X			X	
Sierra Leone		X	X				X			
Somalia	X 4/	X	X			X	X			
Tanzania		X	X					X		
Togo	X		X							X
Uganda		X	X				X			
Zaire	X		X			X	X			
Zambia		X	X				X			
Zimbabwe		X	X		X					

1/ No ceiling on credit to private sector. Ceiling on total domestic credit, i.e., net credit to Central Government plus credit to private sector plus credit to rest of public sector.
2/ Net domestic assets and net credit to Government of the National Bank of Liberia.
3/ Subceilings on drawdowns.
4/ Net domestic assets of the Central Bank. Somalia also had foreign exchange losses as a performance criterion.

arrears were set. The programs also provided that there be no intensification of trade and payments and set dates for reaching understandings about future policies and performance criteria.

VI. Conclusion

During 1980-81 only a limited number of African countries can be considered to have implemented adjustment programs effectively. During this period the economic conditions in Africa have not shown signs of improvement. After picking up somewhat in 1980, economic growth declined in 1981-82 to below 2 per cent. Inflation continued to rise in 1980-81 to an annual average of about 25 per cent, but tapered off to 16 per cent in 1982. The terms of trade declined sharply, by close to 20 per cent during the three year period 1980-82, reflecting in part the recession in the industrialized countries. The current account deficit climbed from about US$10 billion in 1979 to an annual average of about US$13.5 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$46 billion in 1979 to US$67 billion in 1982. As a ratio to GDP this represented an increase from 39 per cent to 51 per cent in a three-year span. The rising international interest rates contributed to an even steeper rise in the debt service ratio, which rose from about 15.5 per cent in 1979 to 27 per cent in 1982. These developments indicate that the need for adjustment remains acute in Africa.

This study has addressed the question of the design and implementation of adjustment programs supported by use of Fund resources in Africa during 1980-81. With regard to design, the programs under consideration generally aimed at promoting economic growth, reducing inflation, and making progress toward a viable balance of payments position. The range of instruments and the intensity with which they were used varied considerably, in accordance with the problems facing the countries and the macroeconomic relationships given by the institutional framework in the country. Most programs emphasized both supply- and demand-oriented measures. The supply-oriented measures, which included the exchange rate, pricing policies, interest rates, investment policies, and the efficiency of public enterprises, aimed at improving resource allocation, increasing capacity utilization, and expanding the productive capacity of the countries. The demand-oriented measures, which included primarily fiscal and monetary policies, aimed at limiting the growth in aggregate demand in light of the supply constraints. The fiscal policies generally entailed improvements in the allocation of expenditure, restrained wage increases, limits on government employment, and an increase in the effectiveness of expenditure control. Tax measures were introduced in most programs, with the aim of expanding the resource base and enhancing the elasticity of the tax system. On the monetary front, the pursuit of an independent credit policy was largely constrained by the fact that budgetary policy dictated the credit expansion to the Government sector. Nonetheless, a number of programs aimed specifically at reducing the crowding-out effect and thus provided for greater growth in credit to the nongovernment 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 gradual adjustment. In some instances, the programs recognized that, while measures were being implemented to bring about adjustment over the medium term, significant immediate improvements were not feasible. In fact, a number of programs envisaged an acceleration in inflation and a widening in the current account deficit during the program period. Even policy instruments were not necessarily contractionary on the demand management front, allowing in certain cases for an increase in the budgetary deficit and an acceleration in the pace of credit expansion.

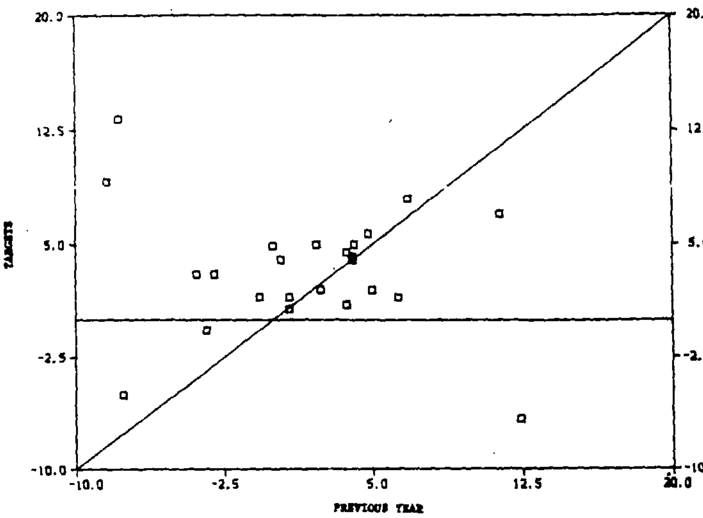
The implementation of programs showed mixed results. Where data are available, in only about one fifth of the cases was the economic growth target attained. With regard to inflation, in nearly half the cases the target was achieved. The target of the ratio of the current account deficit to GDP was attained in over one third of the cases. This study has shown that this mixed performance was associated with slippages in implementation. Two key indicators of financial performance were selected, namely, the budgetary deficit (excluding grants) as a ratio to GDP and the rate of growth of net domestic credit. In over two thirds of cases the budget deficit ratio exceeded the targets. Performance was somewhat better with regard to the expansion of net domestic credit; in over half the cases, its rate of growth was in conformance with program targets. Where the quantitative target of either of these two financial instruments was observed, generally two or more of the three objectives were attained. Where the targets of either of these two instruments were not observed, two or more of the three objectives were not attained. Accordingly, a close correlation was established between policy implementation and attainment of objectives.

The slippages in implementation involved primarily the emergence of unforeseen developments, an insufficient political commitment to the adjustment measures, limitations in the administrative infrastructure, overoptimistic 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 unforeseen factors are handled by readapting and reinforcing policies to limit the deviations from the adjustment path. However, this would generally imply the intensification of the adjustment efforts, for which a strong political commitment is necessary.

While this paper has explained how Fund programs, by emphasizing the reestablishment of domestic and external financial stability, can contribute to putting a country on a sustainable growth path, the financial assistance by the Fund aims at providing the necessary balance of payments financing during the period of adjustment. This should be differentiated from development assistance, which aims at augmenting the resources of the country directly for capital formation. Nonetheless, the restoration of financial stability can generate confidence that will encourage foreign investors, leading to private sector capital inflows. As recent experience has shown, foreign bankers are prepared to provide additional resources for countries undertaking serious adjustment efforts. The Fund is acutely aware that the resources it can make available in support of adjustment efforts, together with whatever private sector financing is generated, will have to be accompanied by additional financial assistance on concessional terms if the developing countries are to be able to attain a satisfactory growth level under conditions of financial stability. In this regard, at the last Annual Meetings of the Fund and the World Bank, the Managing Director of the Fund stressed the important role that development aid can play in promoting economic growth in developing countries. The ensuing growing productive capacity of developing countries can generate greater trade and contribute toward improving their ability to service their external indebtedness over the medium term.

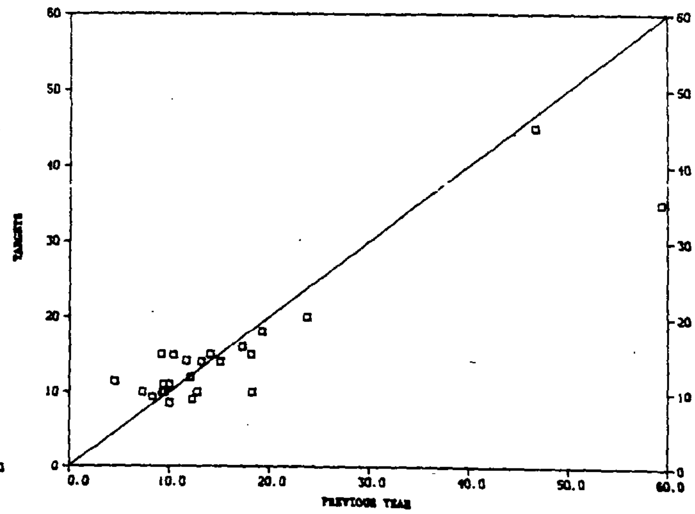
Graph 1

ECONOMIC GROWTH
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



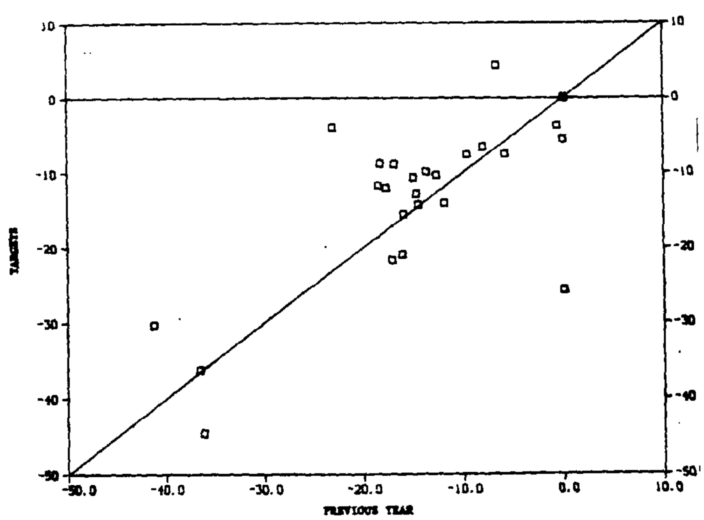
Graph 2

CONSUMER PRICE INDEX (% CHANGE)
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



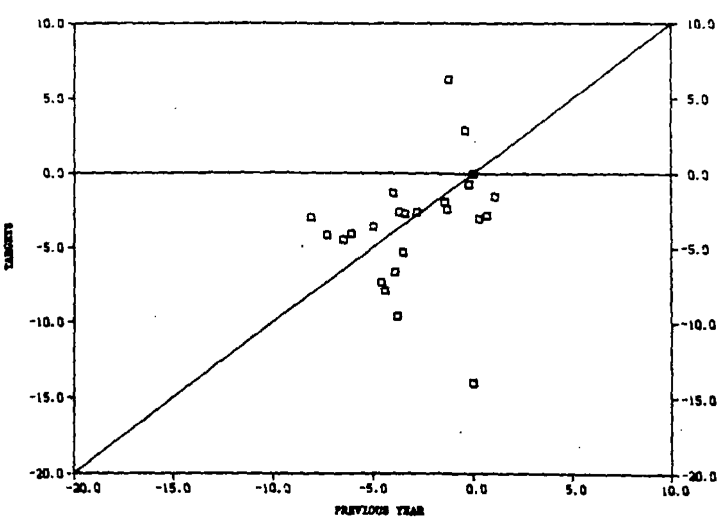
Graph 3

CURRENT ACCOUNT/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



Graph 4

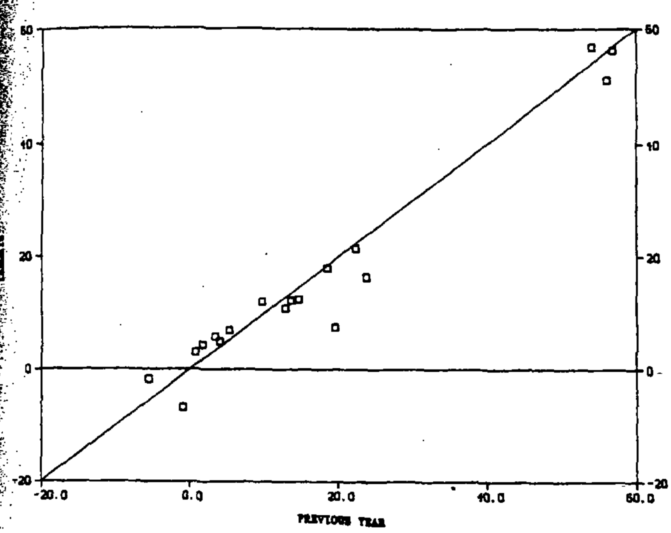
OVERALL BALANCE OF PAYMENTS/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



1/ Graphs 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.

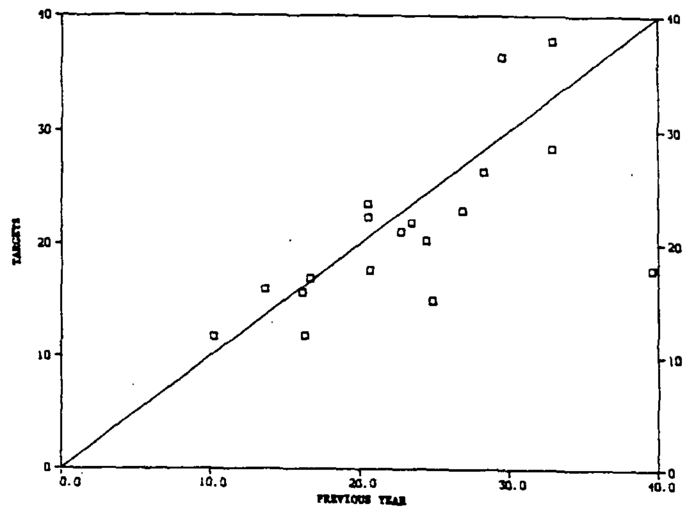
Graph 5

SAVINGS/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



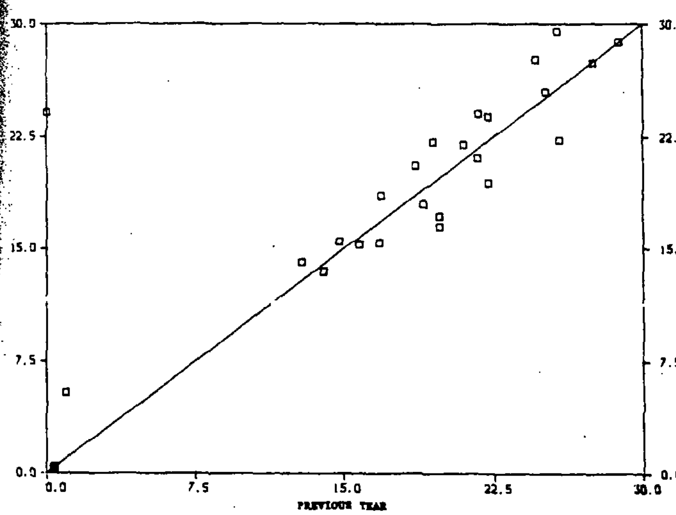
Graph 6

INVESTMENT/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



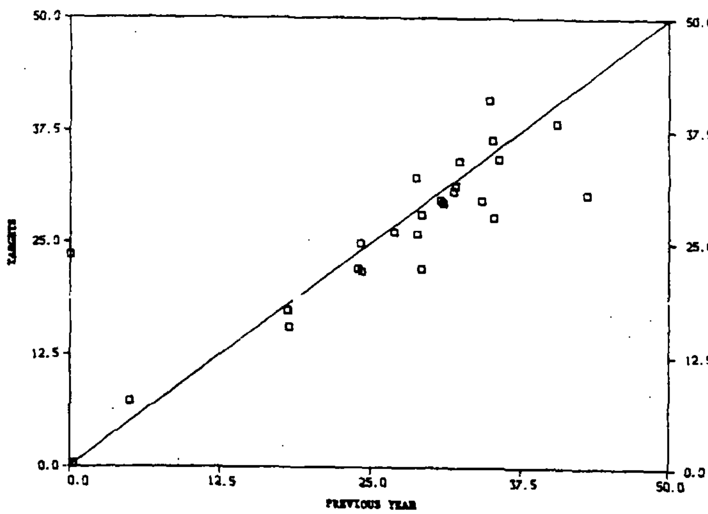
Graph 7

GOVERNMENT REVENUE (EXCLUDING GRANTS)/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



Graph 8

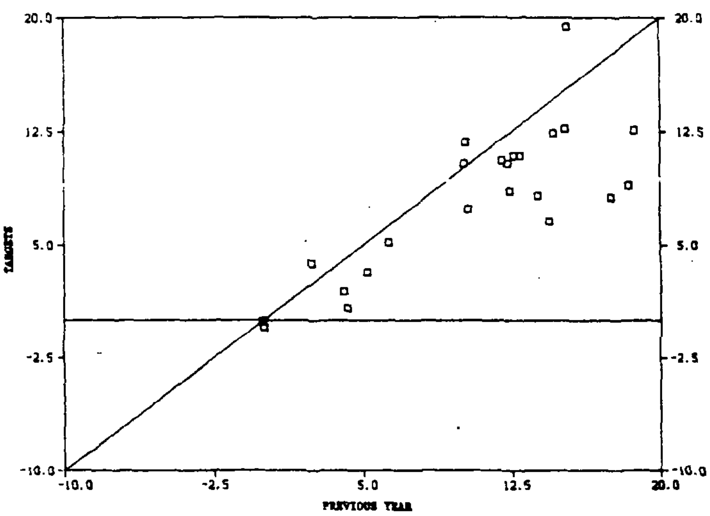
GOVERNMENT EXPENDITURE/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



1/ Graphs 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.

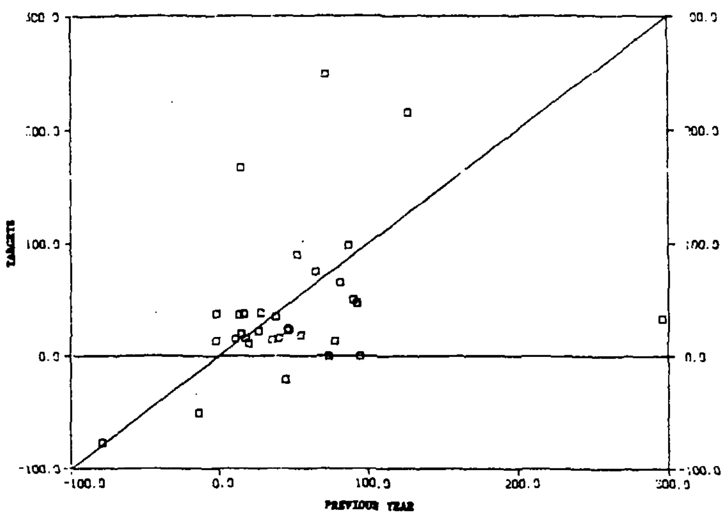
Graph 9

GOVERNMENT DEFICIT (EXCLUDING GRANTS)/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



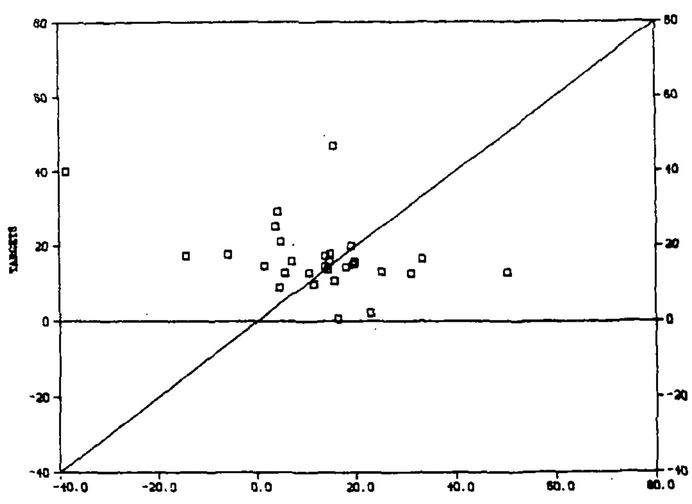
Graph 10

NET CREDIT TO GOVERNMENT (GROWTH RATE)
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



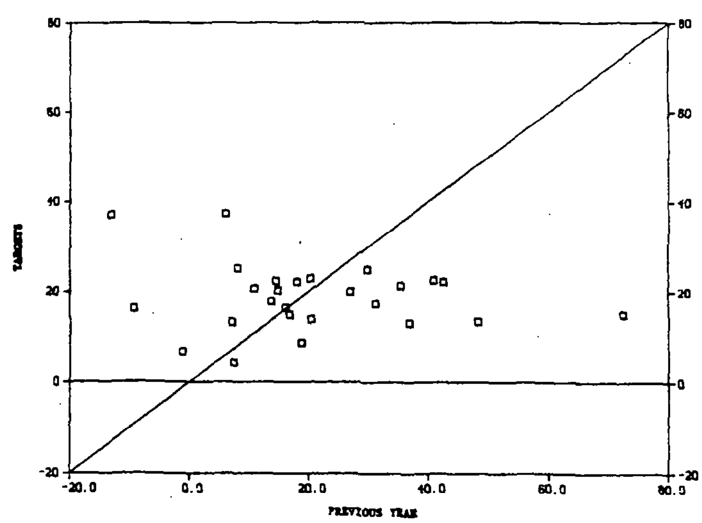
Graph 11

CREDIT TO PRIVATE SECTOR (GROWTH RATE)
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



Graph 12

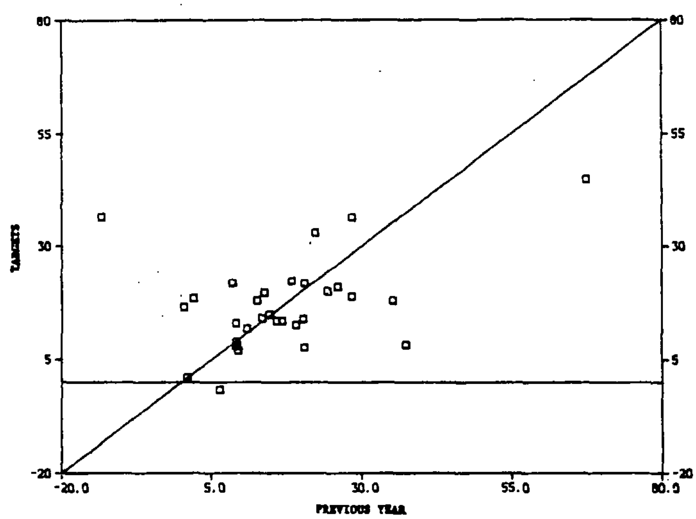
NET DOMESTIC CREDIT (GROWTH RATE)
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



1/ Graphs 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.

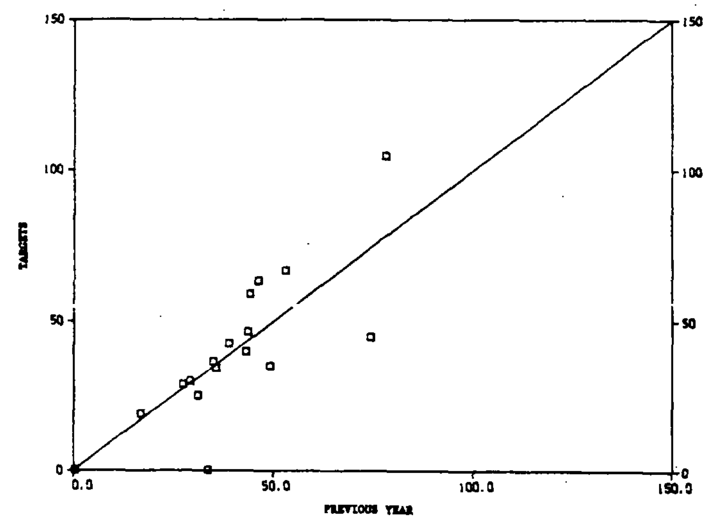
Graph 13

DOMESTIC LIQUIDITY (GROWTH RATE)
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



Graph 14

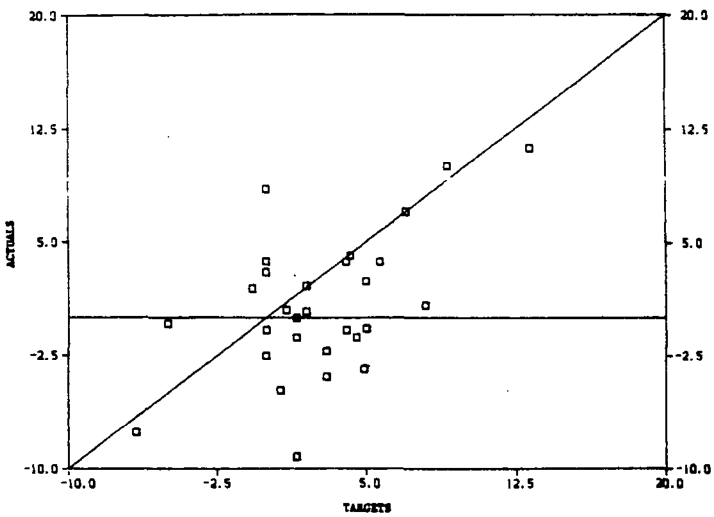
EXTERNAL DEBT/GDP
TARGETS COMPARED WITH THE PREVIOUS YEAR 1/



1/ Graphs 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.

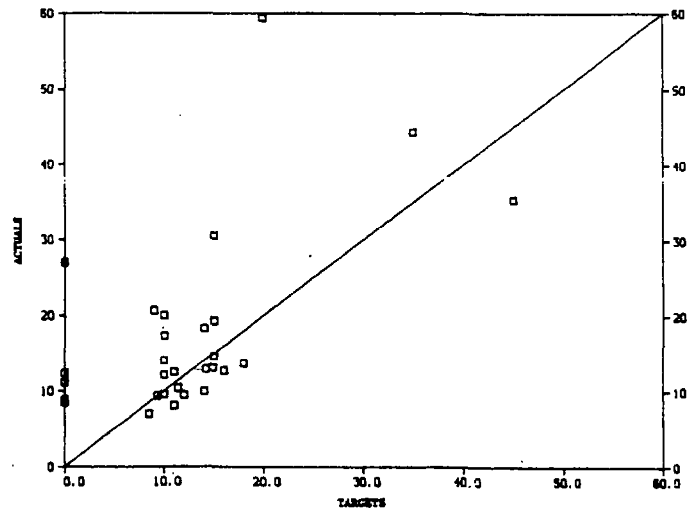
Graph 1a

ECONOMIC GROWTH
ACTUALS COMPARED WITH THE TARGETS 1/



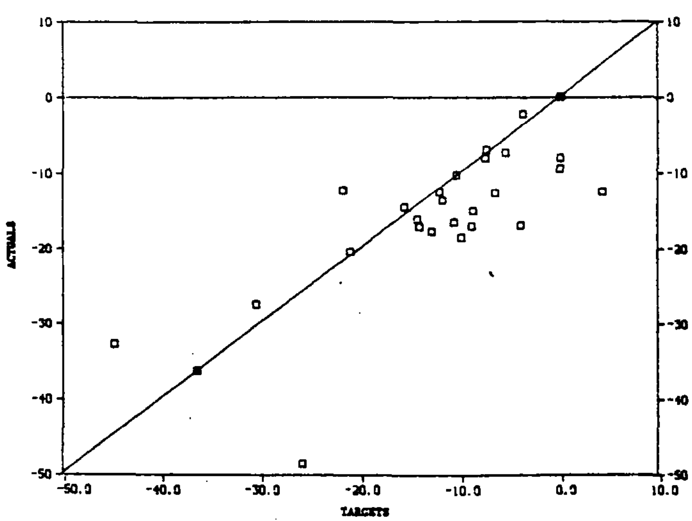
Graph 2a

CONSUMER PRICE INDEX (% CHANGE)
ACTUALS COMPARED WITH THE TARGETS 1/



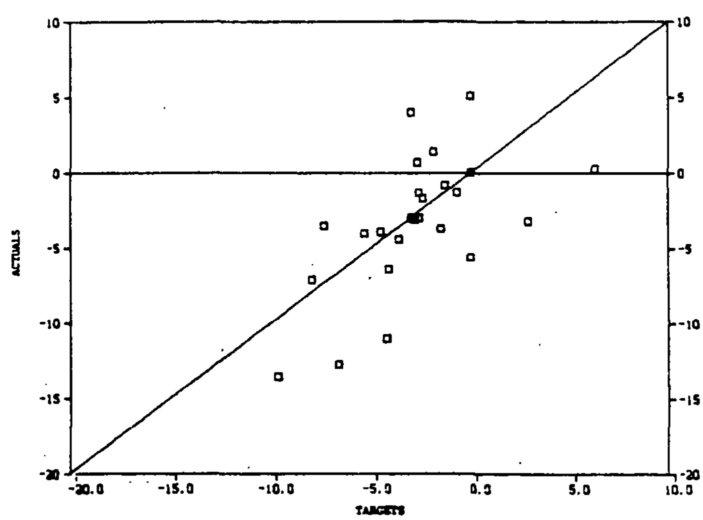
Graph 3a

CURRENT ACCOUNT/GDP
ACTUALS COMPARED WITH THE TARGETS 1/



Graph 4a

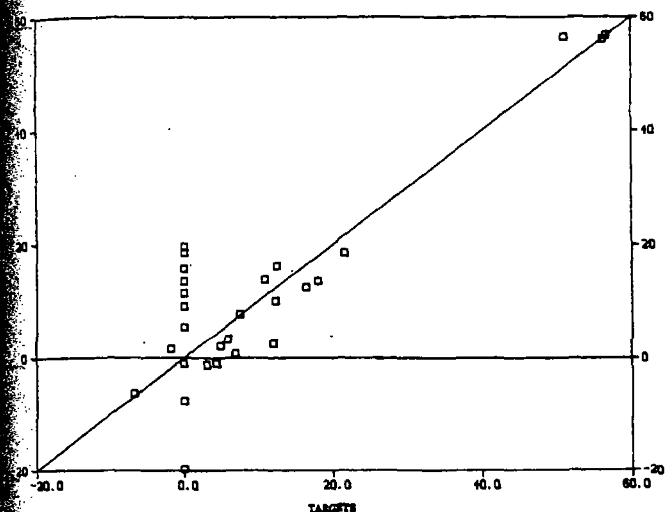
OVERALL BALANCE OF PAYMENTS/GDP
ACTUALS COMPARED WITH THE TARGETS 1/



1/ Graphs 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.

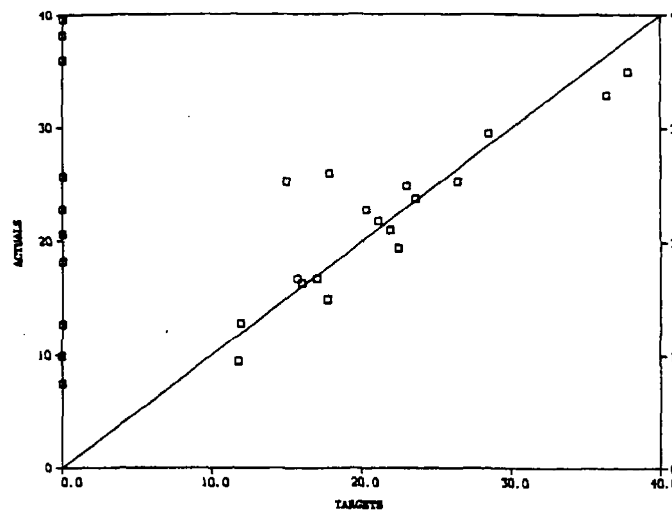
Graph 5a

SAVINGS/GDP
ACTUALS COMPARED WITH THE TARGETS 1/



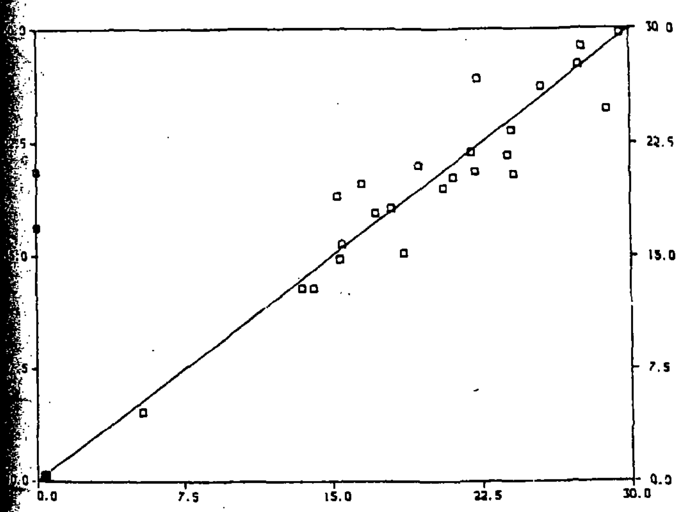
Graph 6a

INVESTMENT/GDP
ACTUALS COMPARED WITH THE TARGETS 1/



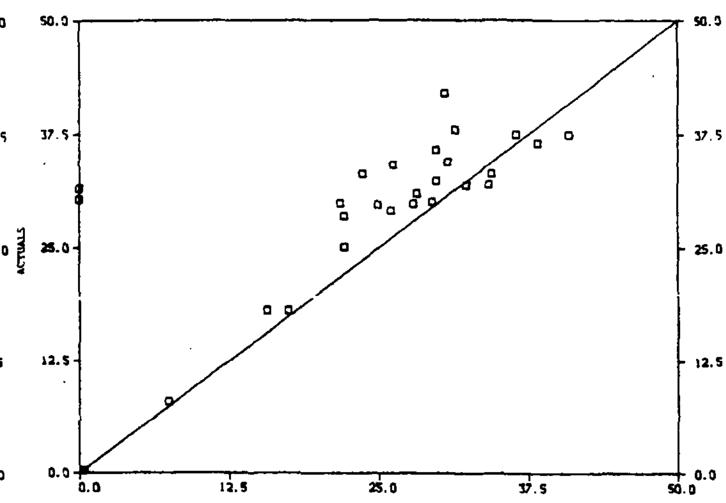
Graph 7a

GOVERNMENT REVENUE (EXCLUDING GRANTS)/GDP
ACTUALS COMPARED WITH THE TARGETS 1/



Graph 8a

GOVERNMENT EXPENDITURE/GDP
ACTUALS COMPARED WITH THE TARGETS 1/

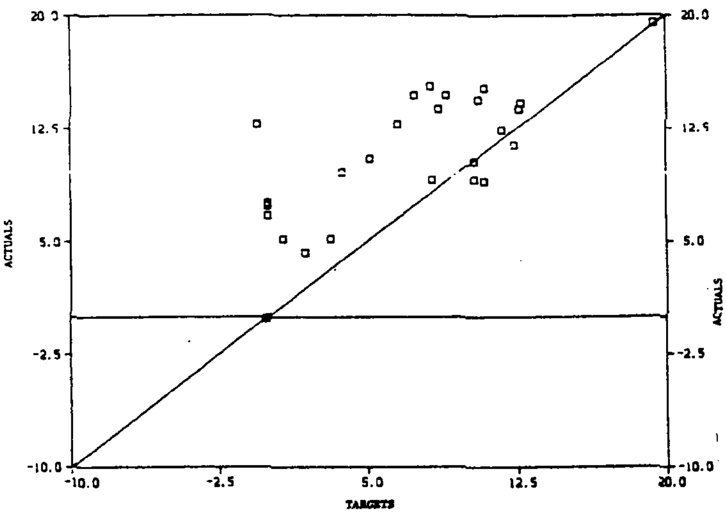


1/ Graphs show the targeted values for the program year on the horizontal axis. The actual outcome for the same program year is on the vertical axis. Points above the 45 degree line represent higher actual values than the targeted values.

APPENDIX II

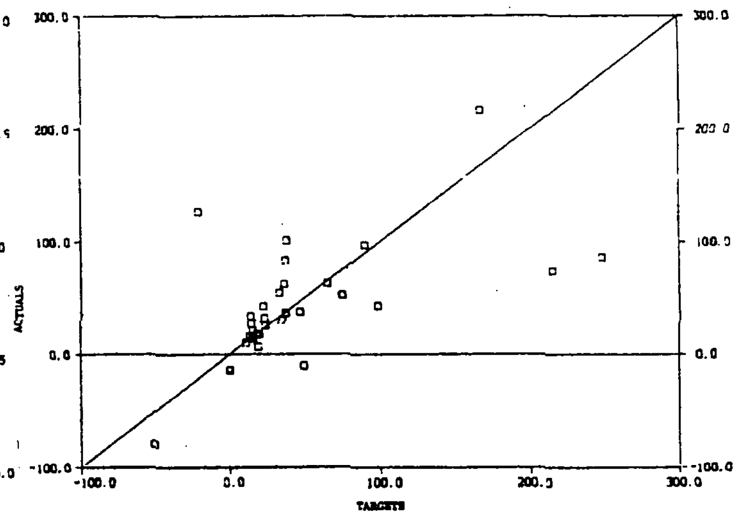
Graph 9a

GOVERNMENT DEFICIT (EXCLUDING GRANTS)/GDP
ACTUALS COMPARED WITH THE TARGETS 1/



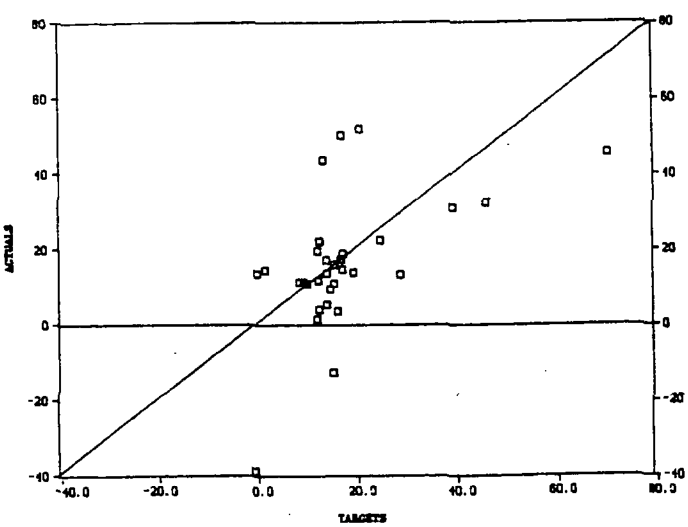
Graph 10a

NET CREDIT TO GOVERNMENT (GROWTH RATE)
ACTUALS COMPARED WITH THE TARGETS 1/



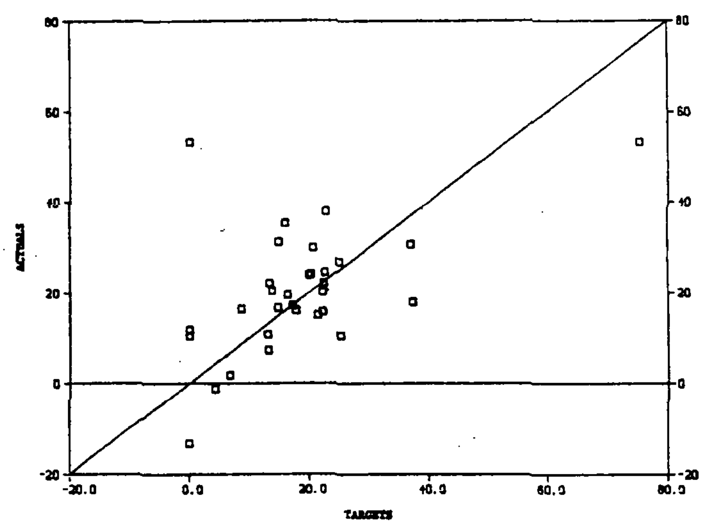
Graph 11a

CREDIT TO PRIVATE SECTOR (GROWTH RATE)
ACTUALS COMPARED WITH THE TARGETS 1/



Graph 12a

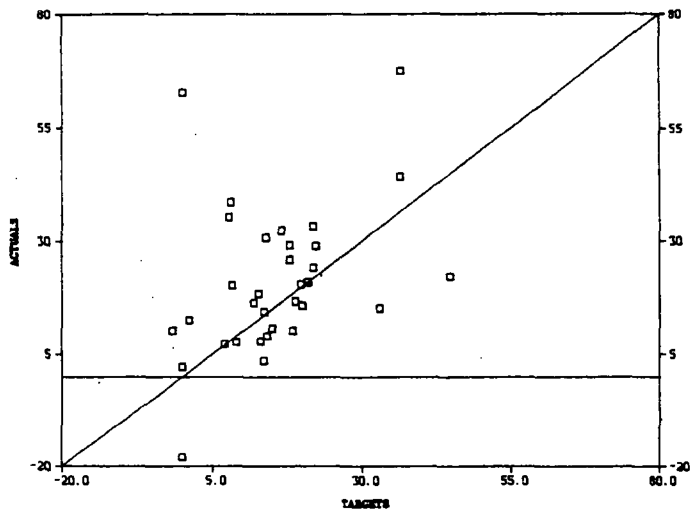
NET DOMESTIC CREDIT (GROWTH RATE)
ACTUALS COMPARED WITH THE TARGETS 1/



1/ Graphs 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.

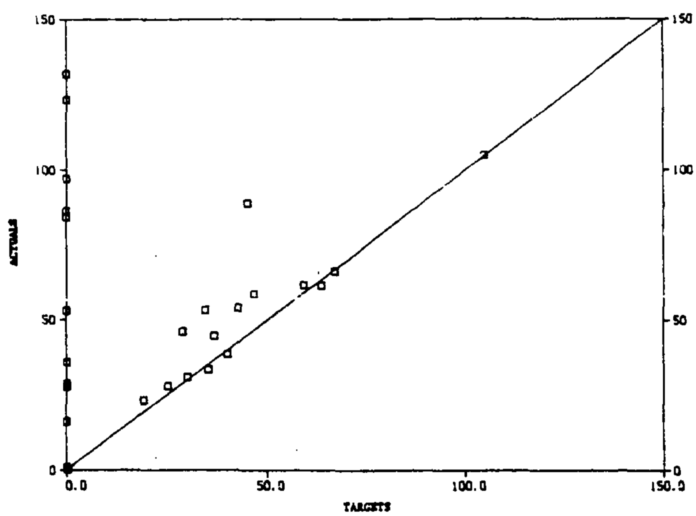
Graph 13a

DOMESTIC LIQUIDITY (GROWTH RATE)
ACTUALS COMPARED WITH THE TARGETS 1/



Graph 14a

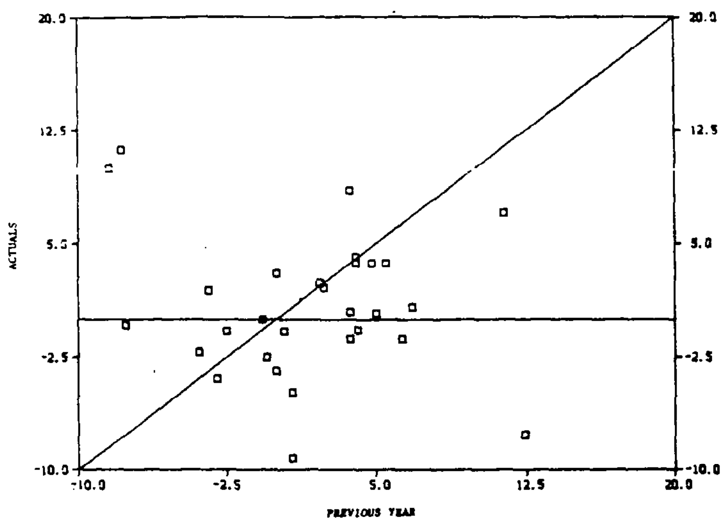
EXTERNAL DEBT/GDP
ACTUALS COMPARED WITH THE TARGETS 1/



1/ Graphs 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.

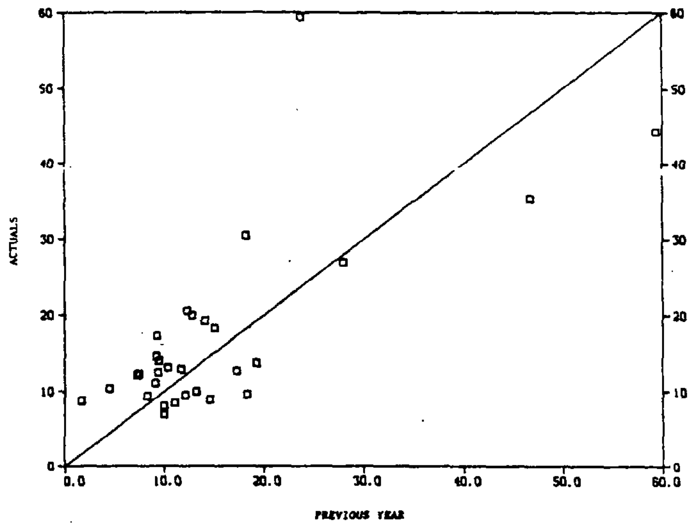
Graph 1b

ECONOMIC GROWTH
ACTUALS COMPARED WITH THE PREVIOUS YEAR [1]



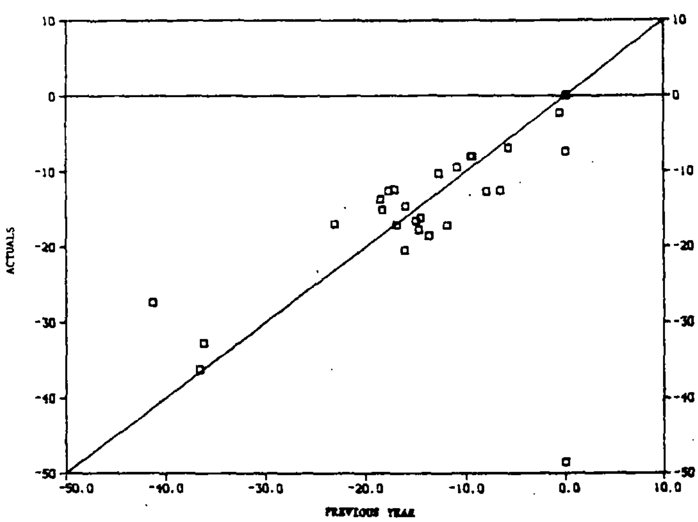
Graph 2b

CONSUMER PRICE INDEX (% CHANGE)
ACTUALS COMPARED WITH THE PREVIOUS YEAR [1]



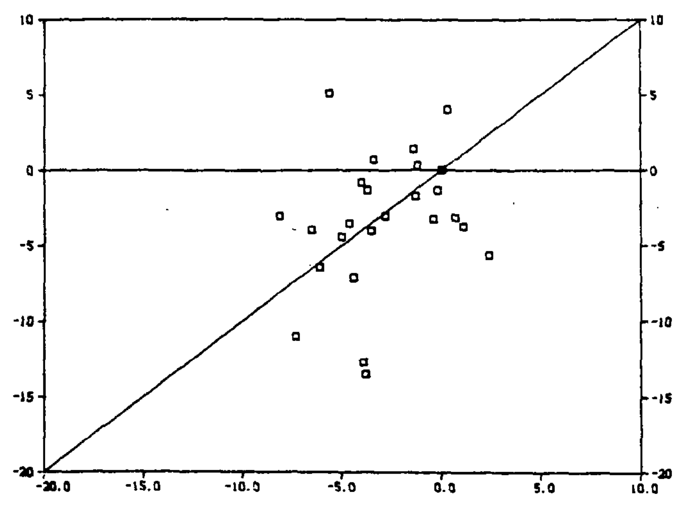
Graph 3b

CURRENT ACCOUNT/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR [1]



Graph 4b

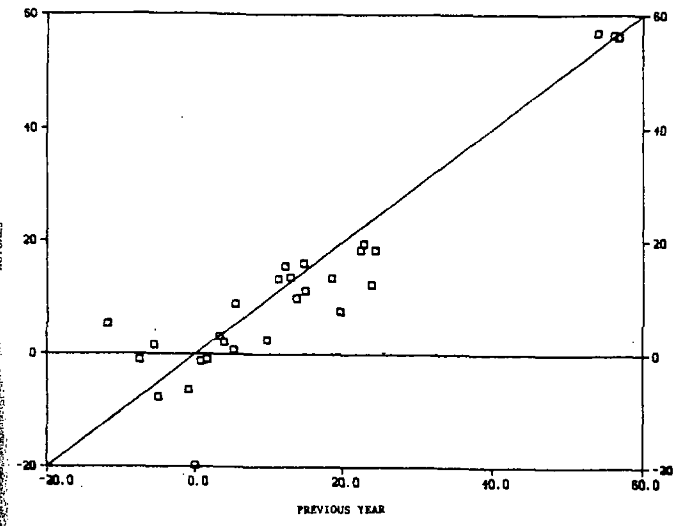
OVERALL BALANCE OF PAYMENTS/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR [1]



1/ Graphs 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.

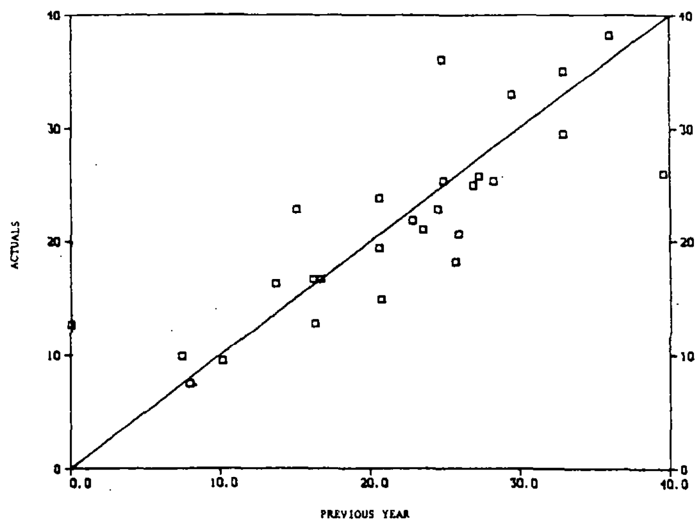
Graph 5b

SAVINGS/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



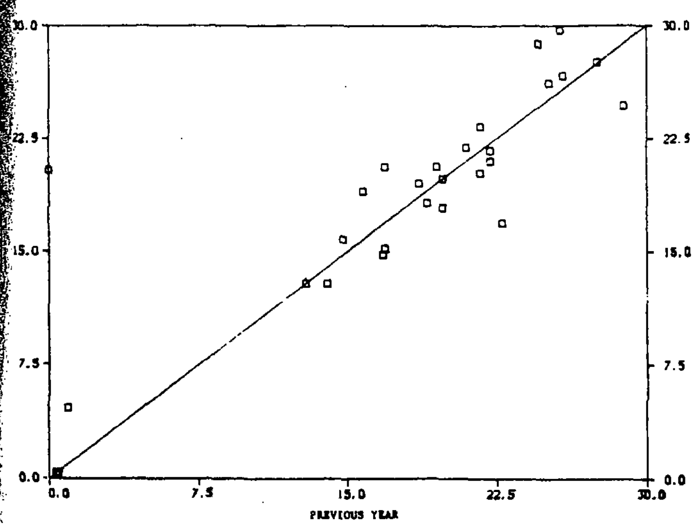
Graph 6b

INVESTMENT/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



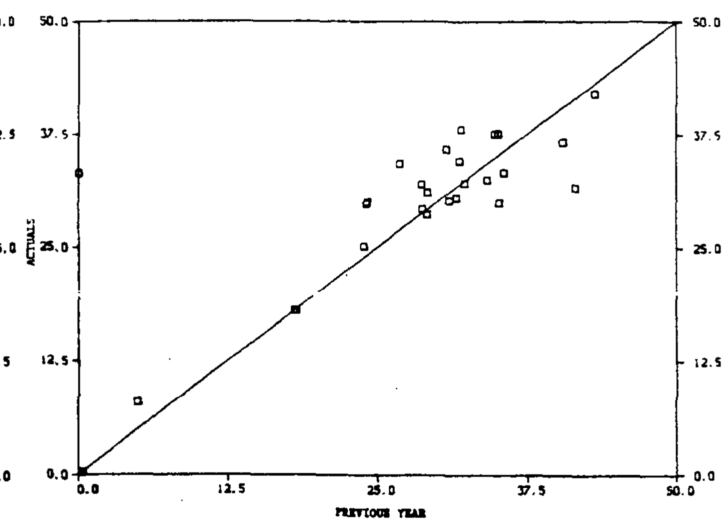
Graph 7b

GOVERNMENT REVENUE (EXCLUDING GRANTS)/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



Graph 8b

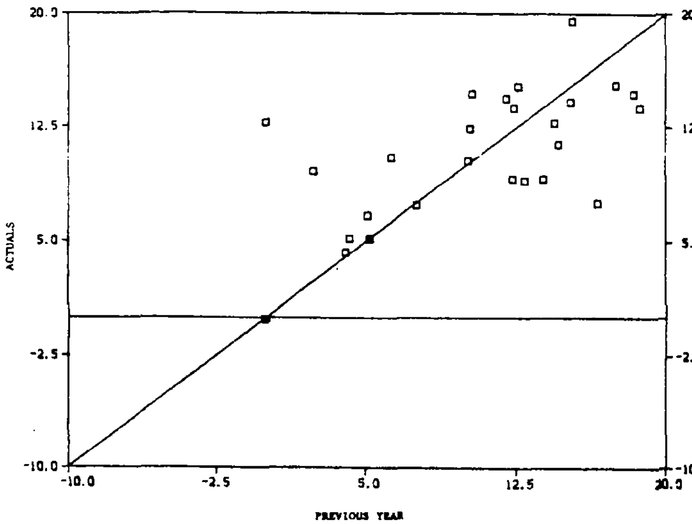
GOVERNMENT EXPENDITURE/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



1/ Graphs 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.

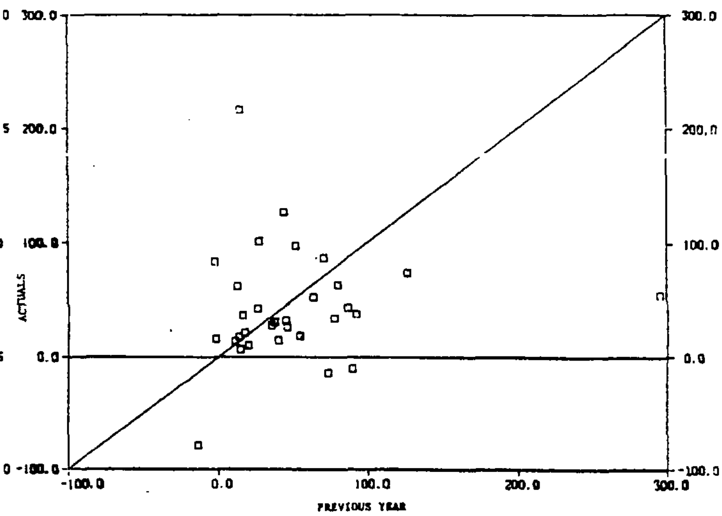
Graph 9b

GOVERNMENT DEFICIT (EXCLUDING GRANTS)/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



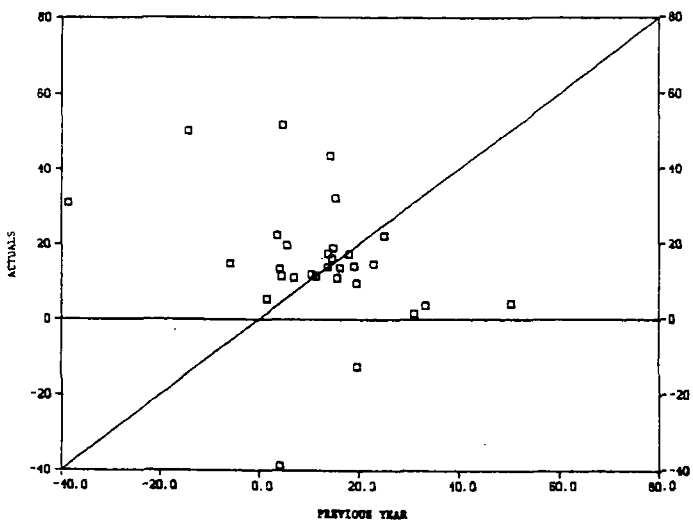
Graph 10b

NET CREDIT TO GOVERNMENT (GROWTH RATE)
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



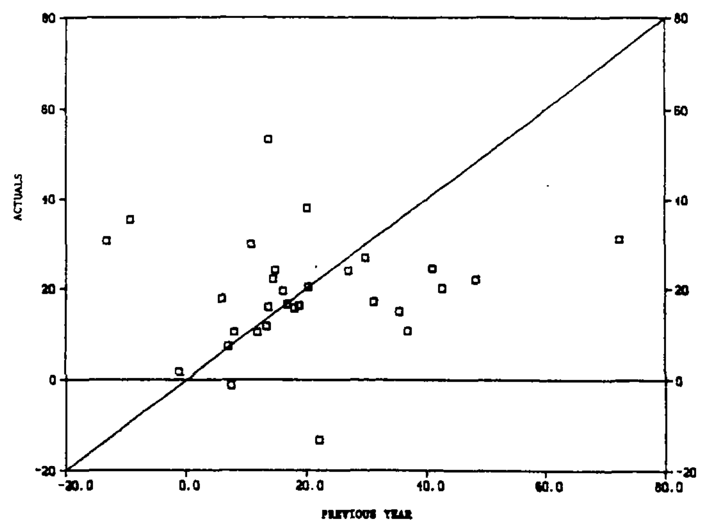
Graph 11b

CREDIT TO PRIVATE SECTOR (GROWTH RATE)
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



Graph 12b

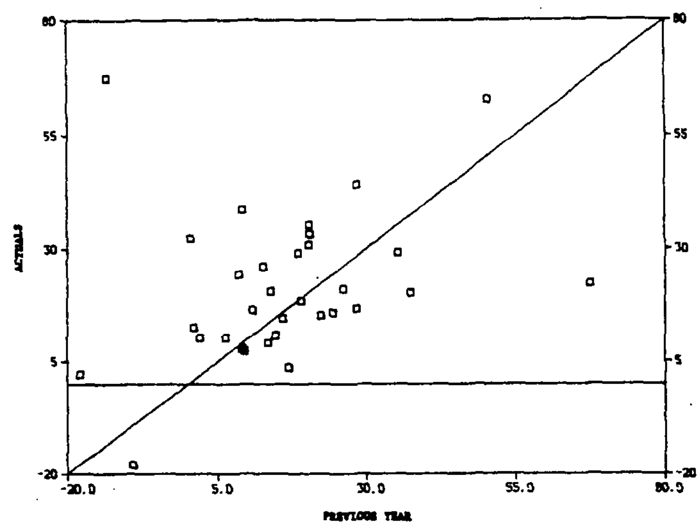
NET DOMESTIC CREDIT (GROWTH RATE)
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



1/ Graphs 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.

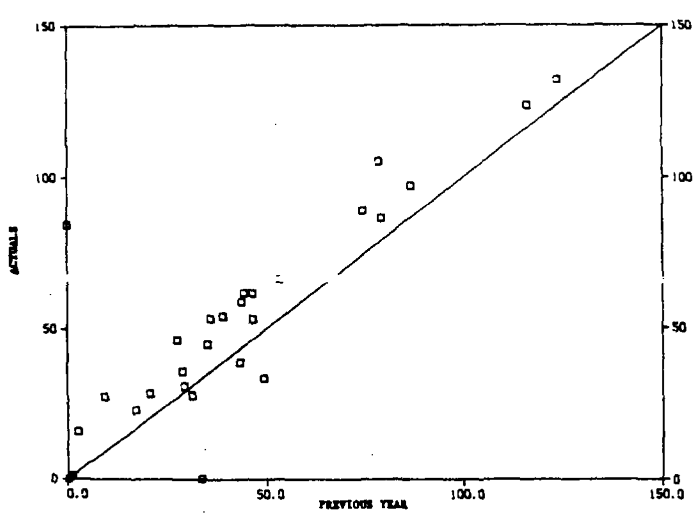
Graph 13b

DOMESTIC LIQUIDITY (GROWTH RATE)
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



Graph 14b

EXTERNAL DEBT/GDP
ACTUALS COMPARED WITH THE PREVIOUS YEAR 1/



1/ Graphs 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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