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Sub-Saharan Africa: The IMF Experience

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A Research Paper

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Sub-Saharan Africa: The IMF Experience [redacted]

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A Research Paper

This paper was prepared by [redacted] the Office of African and Latin American Analysis. Comments and queries are welcome and may be directed to the Chief, Regional Issues Branch, Africa Division, ALA, [redacted]

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Sub-Saharan Africa: The IMF Experience

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Key Judgments

Information available as of 10 May 1985 was used in this report.

Since 1978, Sub-Saharan African countries have become increasingly dependent on balance-of-payments loans from the International Monetary Fund (IMF). Fund involvement in the region has grown as financial flows from banks and governments in industrial countries failed to keep pace with Africa's burgeoning external financing requirements. Indeed, between 1978 and 1984, 39 of 44 member countries in the region received IMF funding; IMF loans outstanding nearly quadrupled to $5.4 billion. 25X1

The bulk of IMF funds has been conditional on implementation of economic adjustment programs and meeting economic performance criteria agreed to by the IMF and the borrowing country. By the end of 1984, 28 of the 39 beneficiary countries had made over 80 arrangements with the IMF, subject to these conditions. 25X1

The objective of the IMF programs has been to assist countries to attain a viable balance-of-payments position through policies that reduce or eliminate the economic distortions that in part caused the payments difficulties in the first place. The adjustment programs usually involve currency devaluations, tax reform, stricter budget controls, reductions in the scope of government enterprises, and development of a more market-oriented environment. Despite the range of changes usually called for, these programs have produced mixed results so far:

- *Ghana, Ivory Coast, Kenya, Mali, Senegal, Togo,* and *Zaire* have been moderately successful in their adjustment efforts. Although the balance-of-payments problems of these countries have not disappeared, they have reduced their current account deficits substantially since 1980-81 and have, for the most part, implemented fiscal and monetary policies and made institutional changes that should continue contributing to viable balance-of-payments positions.

- *Liberia*'s economic performance under IMF sponsorship has worsened sharply since mid-1984 in the uncertain political environment preceding a possible return to civilian government next year. Monrovia's unbudgeted spending and lax revenue collection have contributed to a financial crisis and breached the IMF agreement. The IMF program has been suspended since December.

[redacted] 25X1

- *Zambia*'s economic adjustment efforts have been undercut by the economy's overriding dependence on weak international copper markets. Despite reductions in current account deficits since 1981, foreign exchange shortages have contributed to persistent budget deficits and to arrearages on debt repayment. These financial problems have, in turn, stymied much of the new investment needed to diversify the economy from copper. [redacted] 25X1

Nonetheless, the Fund's involvement has been beneficial. At a minimum, IMF programs have limited the balance-of-payments deterioration that otherwise might have occurred in some countries. In addition, the programs have enabled countries to avoid the probably more inefficient self-initiated adjustment that would have to occur in the absence of IMF support. Moreover, in our judgment, the IMF has been responsive to the economic problems facing the Sub-Saharan countries. In nearly all cases where a country failed to meet performance criteria and its loan agreement was voided, the IMF quickly negotiated a new agreement:

- Between 1978 and 1984, of 10 countries which failed to meet IMF performance criteria, seven—Kenya, Liberia, Madagascar, Malawi, Mauritania, Mauritius, and Senegal—had their programs promptly renegotiated by the Fund.
- Another three—Sierra Leone, Zaire, and Zambia—were without replacement programs for up to 21 months pending new agreements with the Fund.
- Tanzania's 1980 program lapsed in 1982 without formal IMF cancellation and it has been trying, unsuccessfully, to stabilize the economy on its own. [redacted] 25X1

While IMF-supported programs have been key ingredients in gaining financial support, implementing the programs has been politically risky for African governments. The budgetary strictures and restraints on monetary expansion usually required lead to curbs in government employment, reductions in subsidies and other transfer payments, and shifts in economic benefits from urban to rural producers and consumers. Because the political strength of African leaders is often in urban areas, they risk alienating critical political support. Even though Sub-Saharan governments have been able to avoid serious unrest in the face of austerity, Sudan provides a ready example of the risks involved in changing price and subsidy structures. [redacted] 25X1

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We believe that most Sub-Saharan countries will continue to depend on financial assistance from the IMF and other sources for several decades. Because we do not see any prospect during the rest of this century for a radical shift from their role as producers and exporters of primary products, these countries will almost certainly remain vulnerable to fluctuations in primary commodity prices and suffer corresponding instability in their balance of payments. 25X1

While the IMF's role in Africa is likely to remain crucial in providing balance-of-payments support and in assisting in the implementation of economic adjustment programs, the principal sources of external financing for Sub-Saharan Africa probably will continue to be official bilateral channels and multilateral financial institutions other than the IMF, such as the World Bank, the European Community, and UN agencies. As economic conditions in Sub-Saharan Africa are likely to remain bleak, the United States will probably be called upon to give more bilateral economic assistance and to provide additional funds to the multilateral institutions. Given the dimensions of the region's economic problems, any response is likely to fall short. This in turn will only increase the political complexity of dealing with Africa in the years to come. 25X1

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Contents

Appendixes

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Scope Note

This is one of several papers published or under way in the Directorate of Intelligence that examine the experiences of developing countries with IMF-supported adjustment programs. This paper deals with the 39 Sub-Saharan African countries that have received IMF funding since 1978, the year when severe balance-of-payments financing problems throughout the Third World became a critical issue. The paper surveys the broad and varied experience of these countries under IMF-supported programs, and an appendix provides detailed analyses of four types of African responses.

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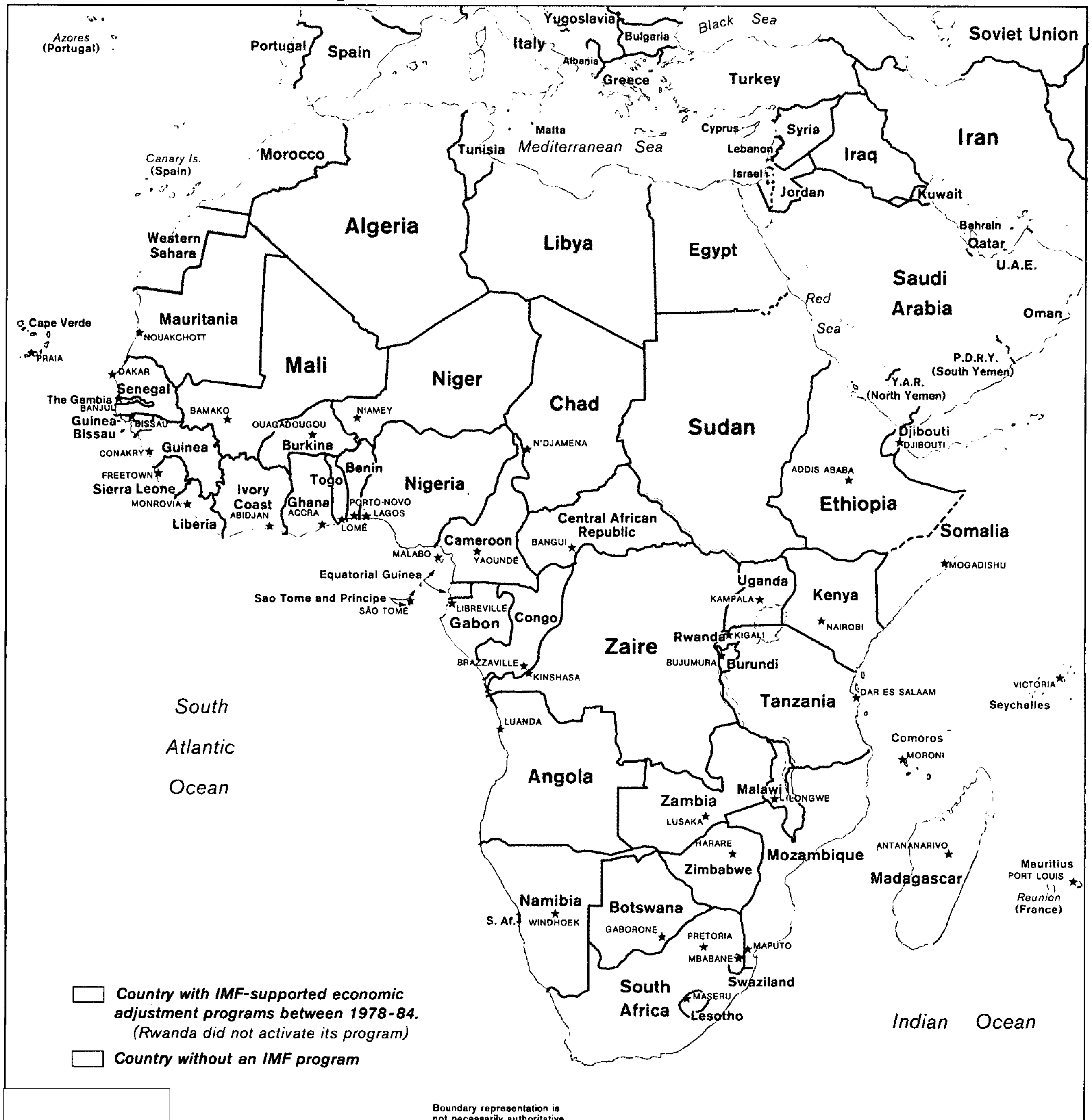
Figure 1
Sub-Saharan Africa: The IMF Experience



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Sub-Saharan Africa: The IMF Experience 25X1

Introduction

Over the past few years, the role of the International Monetary Fund (IMF) in Sub-Saharan Africa has expanded dramatically. In 1978, only 10 African countries went to the Fund for balance-of-payments support but, by the end of 1984, the number of countries had grown to 39 (see figure 1). Over this period they and the IMF signed more than 80 separate arrangements. In addition to an increasing number of countries, the level of the IMF commitments also was on the rise. During the 1978-84 period, outstanding IMF loans to Sub-Saharan countries nearly quadrupled in value, from $1.5 billion to $5.4 billion. At the end of 1984, 13 Sub-Saharan African countries were among the 33 IMF members with loan programs subject to high levels of economic policy conditionality.[1]

The increased reliance on the IMF has occurred as the countries in Sub-Saharan Africa have sought ways to help cover widening balance-of-payments deficits. The relative importance of Fund financing picked up after 1980 when official bilateral capital inflows from industrial countries, the main source of external financing in the past, failed to keep pace with financial demands. At the same time, loans from commercial banks and other foreign private sources were not made available in required amounts because private lenders, already shaken by the international debt crisis, generally did not view African countries as prime credit risks. The Sub-Saharan countries were compelled to turn to the IMF for new funds and, in exchange, had to adopt economic adjustment programs (see figure 2).

Balance-of-Payments Problems

Causes

The balance-of-payments problems of African countries reflect longstanding and cumulative adverse economic factors. Nearly all Sub-Saharan countries suffered increased current account deficits after the initial shock of the oil price increases of 1973-74. According to international trade statistics, some countries benefited for a time from the boom in 1975-78 of primary commodity prices such as cocoa (Ghana, Ivory Coast), coffee (Ivory Coast, Kenya), peanuts (The Gambia, Senegal), and sugar (Mauritius), but they often spent these revenues on imports or capital projects, neglecting to sufficiently build foreign exchange reserves. Countries that depended heavily on mineral exports, including Liberia and Mauritania (iron ore) and Zaire and Zambia (copper), were less fortunate because mineral prices continued to decline during the 1974-78 period. 25X1

The present phase of Sub-Saharan Africa's financial crisis was triggered by a second round of oil price 25X1
increases in 1979-80, the end of the boom in nonmineral primary commodity prices and the onset of recession in the industrialized countries. These developments, which were interrelated, translated into a dropoff in demand for the region's export products. Moreover, they caused a substantial worsening in the terms of trade—the prices of exports relative to the prices of imports—for oil-importing Sub-Saharan African countries. we esti- 25X1
mate that the terms of trade for these countries, South Africa excluded, deteriorated by an average of 5 percent a year from 1978 to 1982. Since then, marginal terms-of-trade improvements in 1983 and 1984 have had little positive impact on the balance of payments of the region. 25X1

In addition to these adverse external developments, 25X1
structural characteristics and domestic economic policies have also helped compound Sub-Saharan Africa's

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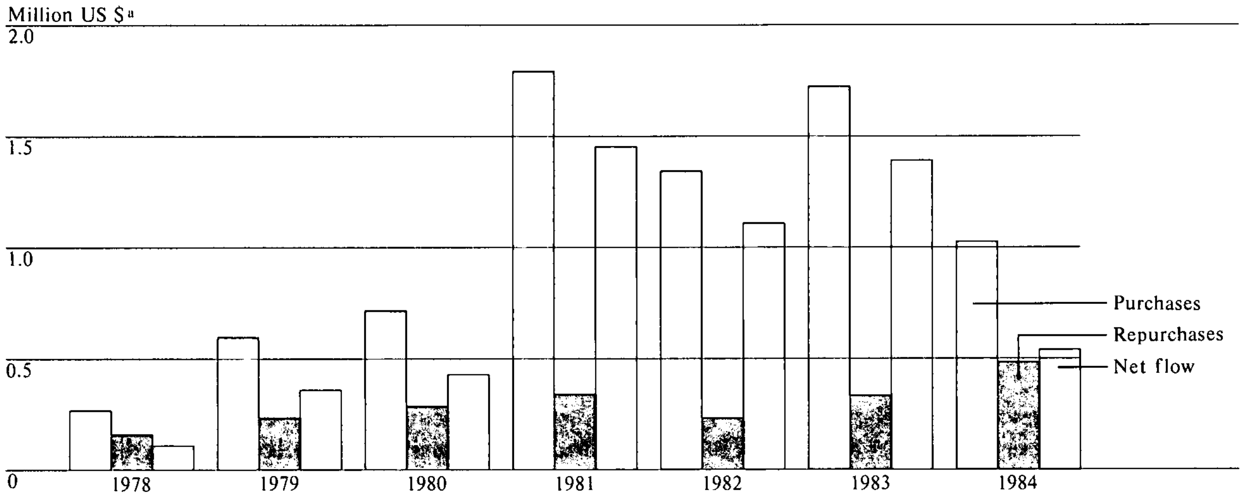
Figure 2
Sub-Saharan Africa: Financial Flows From the IMF, 1978-84



[a] Special Drawing Right (SDR) values converted at period average SDR/$ exchange rates. Excludes South Africa.

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economic problems. Although countries obviously differ on specifics, most Western analysts have identified a general pattern.[2] Among the major elements are:

- A dependence on exports of primary products whose markets have been restricted by slow economic growth in industrial countries since the late 1970s (Kenya, Liberia, Tanzania, Zaire, Zambia).
- Drought that contributed to a rate of agricultural growth lower than that of population growth since the 1970s (Burkina, Central African Republic, Chad, Ethiopia, Mali, Niger).
- Exchange rate policies that overvalue domestic currencies as governments resist currency devaluations, despite inflation rates higher than those abroad (Burundi, Nigeria, Rwanda, Tanzania).
- Inadequate price incentives for agricultural production and nonmineral exports (Ghana, Senegal, Tanzania).
- Sizable budgetary deficits driven by expansionary economic policies, explosions in public-sector employment, and extensive economic activity by public enterprises, all of which are financed largely by inflationary government borrowing from the domestic banking system (Congo, Kenya, Liberia, Tanzania). 25X1

Impact

The impact of these factors on the combined current account balances of the Sub-Saharan countries has been dramatic. We estimate the current account deficit of the region, exclusive of South Africa and the oil-exporting countries of Congo, Gabon, and Nigeria, to have tripled from $2 billion in 1973 to $6 billion in 1978 and to have reached a peak of $11 billion in 25X1

IMF: Sources and Uses of Funds

The IMF is mainly funded by member-country subscriptions and, on occasion, by borrowing from member countries and international institutions. Other sources of funds include charges on members for services and investment and interest income. The IMF also administers two special accounts for the benefit of developing-country members—the Trust Fund and the Supplementary Financing Facility Subsidy Account—which are funded separately.

Subscriptions are determined by the size of the quota assigned to each member and are paid mainly with a member country's own currency, plus a smaller amount, not exceeding 25 percent, in reserve assets. The reserve assets include other currencies acceptable to the IMF and Special Drawing Rights (SDR), a reserve asset periodically created by the IMF and allocated to members on the basis of quota size to supplement existing reserve assets.

IMF funds are made available to a member to meet balance-of-payments needs primarily by exchanging the member's own currency for the currencies of other members. Because the IMF's resources are intended to function as a revolving fund, this "purchase" or "drawing" of funds is expected to be reversed in due course with a "repurchase" by the member of its own currency and the return to the IMF of an equivalent amount of other currencies or SDRs.

Member countries obtain IMF funds either through the basic IMF policy for general balance-of-payments support or through special loan facilities established for specific purposes linked to balance-of-payments need. The basic IMF policy for general balance-of-payments support makes funds available to a member in successive tranches, each equal to 25 percent of a member's quota. The first "reserve" tranche drawing is considered the counterpart of reserve assets deposited with the IMF when the member's quota was determined and only requires a member's statement of need in order to be implemented. Additional "credit" tranche drawings, each equal to 25 percent of quota, require additional documentation of need and usually a standby arrangement that includes economic adjustment policies that help to ensure that the credit will be repaid. Drawings above four credit tranches are possible under the Fund's Enlarged Access Policy to support longer term adjustment. The stringency of the loan conditions increases with the extent of the drawings. 25X1

The special IMF loan facilities include:

The Extended Facility, *which makes resources available in larger amounts and for longer periods than under credit tranche policies.* 25X1

The Compensatory Financing Facility, *which lends to members experiencing temporary shortfalls in export earnings from merchandise exports—mainly primary products and invisibles—or balance-of-payments difficulties owing to an excess in the cost of cereal imports.*

The Buffer Stock Facility, *which provides balance-of-payments support loans to help members finance international buffer stocks of primary products.* 25X1 25X1

Among the IMF-administered accounts:

The Trust Fund *provided grants and concessional loans to LDCs, 1977-81.*

The Supplementary Financing Facility Subsidy Account *subsidizes interest costs for poorer LDC borrowers from the IMF's Supplementary Financing Facility (SFF), which operated from 1977 to 1984 with borrowed funds. The SFF has been replaced by the IMF "policy on enlarged access," which has a function similar to that of the Extended Facility but has changeable guidelines on funding and loan limits.* 25X1 25X1

The IMF limits the rate at which members may draw on its various loan sources. The present limitations on drawings are equal to 95 to 115 percent of quota through the end of 1985 and to 280 to 345 percent of quota over three years. Total allowable debt to the IMF is 408 to 450 percent of quota. The allowable percentages depend on the severity of the country's balance-of-payments problem and may be exceeded in special circumstances. 25X1

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IMF Conditionality

The provision of funds by the IMF is conditional on the implementation of policies aimed at correcting balance-of-payments problems. Conditionality is lowest for drawings on the Buffer Stock Facility, Compensatory Financing Facility, and a member's reserve tranche. It is fairly liberal for drawings on the first credit tranche but increases with drawings on successive credit tranches.

For drawings on the higher credit tranches, conditionality is implemented through standby arrangements for periods of usually 12 to 18 months or through extended arrangements of up to three years. Each arrangement with the IMF involves a program of corrective domestic policies including a number of performance criteria. The funds stipulated in each arrangement are paid out in installments conditional on meeting the performance criteria.

Performance criteria are normally limited to macroeconomic variables and to policies that ensure compliance with certain basic provisions of the IMF's Articles of Agreement. Macroeconomic criteria may include, for example, ceilings on domestic credit expansion, budgetary deficits, and foreign borrowing. Currency devaluation is sometimes required by the IMF as a precondition for the signing of an agreement. The member country also routinely agrees not to restrict payments for current account transactions and not to impose or intensify import restrictions for balance-of-payments purposes. Performance criteria are usually specified for three-month periods, and each arrangement is subject to quarterly review by the IMF.

1981. Even with a modest recovery in primary commodity prices, along with some restriction in imports, this deficit was still about $7 billion in both 1983 and 1984 (see table 1).

Sub-Saharan Africa's growing current account deficits forced greater reliance on external financing. In meeting this challenge, the countries in the region turned not only to traditional aid donors for more support but also increased their dependence on the international financial institutions. As a result, the official and officially guaranteed disbursed medium- and long-term external debt of the region, South Africa excluded, more than doubled to $58 billion between 1978 and 1983, of which about $34 billion was owed to official bilateral and multilateral lenders.[3] We estimate the official medium- and long-term external debt totaled at least $63 billion by the end of 1984. In addition, indebtedness to the IMF stood at nearly $6 billion. 25X1

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The Relative Role of Official Development Assistance

Despite the expanding IMF role, the principal source of external financing of Sub-Saharan Africa has been and remains official development assistance (ODA) in the form of grants and loans from governments and multilateral organizations in industrial and, to a lesser extent, OPEC countries (see table 2). In 1983, ODA accounted for roughly 65 percent of net financial flows to the region, which averaged $7 billion annually since 1980 compared with average IMF net flows of $1.4 billion. 25X1

The degree of dependency on ODA as a source of financial inflows varies. In 1983, for example, ODA accounted for only 2 percent of Nigeria's total net financial inflows and 23 percent of Gabon's. At the other extreme, ODA was 99 percent or more of the total net financial inflows to 13 countries, including Chad, The Gambia, Malawi, Mali, Tanzania, and Zambia. 25X1

Adjusting to the Problems 25X1

IMF Financial Flows

The IMF has been fairly responsive since 1978 to Sub-Saharan Africa's worsening balance-of-payments situation, as reflected in both the gross and net financial flows from the IMF to the countries of the 25X1

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Table 1
Sub-Saharan Africa: Current Account Balances and Financial Flows From the IMF

Billion US $

	1978	1979	1980	1981	1982	1983	1984
Current account balance [a]							
All countries	−9.0	1.0	−2.0	−22.0	−20.0	−12.0	−12.0 [b]
Excluding Congo, Gabon, Nigeria, and South Africa	−6.0	−7.0	−10.0	−11.0	−9.0	−7.0	−7.0 [b]
Gross financial flows from the IMF [c]							
All countries	0.3	0.6	0.7	1.8	1.3	1.7	1.0
Excluding Congo, Gabon, Nigeria, and South Africa	0.2	0.6	0.9	1.8	1.1	1.8	1.0
Net financial flows from the IMF [c]							
All countries	NEGL	NEGL	0.2	1.5	2.1	1.3	0.5
Excluding Congo, Gabon, Nigeria, and South Africa	0.1	0.3	0.4	1.5	0.8	1.3	0.5
(Memorandum item: net official development assistance disbursements, all countries)	(5.0)	(6.0)	(7.0)	(7.0)	(7.0)	(7.0)	(7.0) [b]

[a] Goods, services, and private transfers.
[b] Estimated.
[c] SDR values converted at period average SDR/$ exchange rates.

[redacted]

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region (see table 1 and figure 2). Excluding South Africa and the oil-exporting countries of Congo, Gabon, and Nigeria, gross flows from the IMF to Sub-Saharan Africa rapidly escalated from $200 million in 1978 to a peak of $1.8 billion in 1981 while the current account deficit of these African countries rose from $6 billion to a record $11 billion. Since 1980, gross IMF funding for these countries has averaged $1.4 billion a year, although falling to $1 billion last year. In the period 1981 to 1984, the ratio of gross financial flows from the IMF to the combined current account deficit of the group averaged 17 percent, compared to the average 7 percent of the years 1978 to 1980. [redacted]

[redacted] the decline in 1984 in the gross drawings of LDC members was mainly caused by improvements in their external accounts resulting from substantial economic adjustment efforts, particularly by major debtors. We believe that in the case of Sub-Saharan African countries other factors contributed, since several countries did not repeat their 1983 drawings from the Compensatory Financing Facility because of a slight pickup in primary commodity prices. In addition, the heavy drawings in 1983 under support packages for relatively large economies such as those of Ivory Coast, Sudan, and Zimbabwe were not to be repeated on the same scale in 1984. [redacted] 25X1

[redacted] 28 of the 39 African states that have drawn funds from the IMF between 1978 and 1984 have done so with relatively high economic policy conditionality, either through standby arrangements or the Extended Fund Facility. The remainder drew mainly from the countries' reserve tranches or the IMF's Compensatory Financing Facility, neither of which involve significant conditionality (see table 3). [redacted] 25X1

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Table 2
Sub-Saharan Africa: Profile of Financial Flows, 1983

	Official Development Assistance (ODA) *(million US $)*	Net Financial Flows From		ODA as a Percent of All Sources *(percent)*	IMF Flows as a Percent of All Sources *(percent)*
		IMF *(million US $)*	All Sources [a] *(million US $)*		
Total	**6,727.3**	**1,391.5**	**10,463.3**		
Angola	73.4		200.9	36.5	
Benin	87.2	1.9	92.0	94.8	2.1
Botswana	103.6		129.5	80.0	
Burkina	189.9		201.7	94.1	
Burundi	141.0	−5.1	129.5	108.9	NA
Cameroon	132.3	13.4	361.1	36.6	3.7
Cape Verde	56.3		60.5	93.1	
Central African Republic	93.2	5.8	98.1	95.0	5.9
Chad	86.2	3.5	84.6	101.9	4.1
Comoros	38.8		40.1	96.8	
Congo	108.5	3.5	322.5	33.6	1.1
Djibouti	64.6		66.1	97.7	
Equatorial Guinea	12.4	1.5	13.3	93.2	11.3
Ethiopia	257.7	−19.2	284.4	90.6	NA
Gabon	63.6	−8.0	279.7	22.7	NA
Gambia, The	42.2	−1.8	38.3	110.2	NA
Ghana	107.3	277.5	124.6	86.1	222.7
Guinea	68.5	5.0	71.3	96.1	7.0
Guinea-Bissau	59.2		61.7	95.9	
Ivory Coast	156.5	179.4	448.5	34.9	40.0
Kenya	398.6	95.8	478.6	83.3	20.0
Lesotho	101.3		103.3	98.1	
Liberia	118.4	55.3	−125.1	NA	NA
Madagascar	241.6	12.3	236.6	102.1	5.2
Malawi	116.8	25.5	105.4	110.8	24.2
Mali	214.1	17.0	214.8	99.7	7.9
Mauritania	171.5	−2.5	215.5	79.6	NA
Mauritius	40.7	18.3	53.2	76.5	34.4
Mozambique	211.9		394.5	53.7	
Niger	167.5	32.9	197.1	85.0	16.7
Nigeria	49.7	82.7	2,305.1	2.2	3.6
Reunion	410.7		410.7	100.0	
Rwanda	149.0		149.7	100.0	
Sao Tome and Principe	11.7		11.7	100.0	
Senegal	315.0	28.3	455.8	69.1	6.2
Seychelles	15.8	0.7	18.3	86.3	3.8
Sierra Leone	65.1	23.1	66.5	97.9	34.7
Somalia	335.9	50.7	411.8	81.6	12.3
Swaziland	33.6	10.7	53.0	63.4	20.2

Table 2
Sub-Saharan Africa: Profile of Financial Flows, 1983 (continued)

	Official Development Assistance (ODA) *(million US $)*	Net Financial Flows From: IMF *(million US $)*	Net Financial Flows From: All Sources [a] *(million US $)*	ODA as a Percent of All Sources *(percent)*	IMF Flows as a Percent of All Sources *(percent)*
Tanzania	604.4	−20.3	610.0	99.1	NA
Togo	111.3	23.4	110.5	100.7	21.2
Uganda	134.7	107.8	190.8	70.6	56.5
Zaire	318.3	128.2	111.1	286.5	115.4
Zambia	216.4	80.0	218.1	99.2	36.7
Zimbabwe	206.8	164.2	333.4	62.0	49.2
Other	24.5		24.5	100.0	

[a] OECD data on net financial flows from 17 developed countries, OPEC, and multilateral organizations. The data exclude flows from Soviet Bloc countries, other LDCs, and the IMF, except for the IMF-administered Trust Fund.

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Table 3
Sub-Saharan Africa: Gross Drawings From the IMF [a]

Million US $

	From Reserve Tranche	From Credit Tranches: Under Standby Arrangements	From Credit Tranches: Other	Extended Fund Facility	Compensatory Financing Facility	Buffer Stock Facility	Total	Number of Countries
Total	**956.2**	**3,415.8**	**78.2**	**1,130.8**	**2,371.5**	**9.1**	**7,961.6**	
1978	15.3	192.6	17.3		48.1		273.3	12
1979	45.6	256.5			95.9		398.0	12
1980	33.4	293.3	21.6		284.7		633.0	22
1981	55.4	512.3	36.7	126.3	134.1		864.8	15
1982	517.7	463.8		701.4	478.9		2,161.8	23
1983	53.3	742.3	2.6	166.5	947.4	5.9	1,918.0	26
1984	235.5	955.0		136.6	382.4	3.2	1,712.7	35

[a] Fiscal years ending 30 April. SDR values converted to US $ at end-of-period SDR/$ exchange rates.

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The degree of IMF involvement depends on more than just new funding flows. The requirement for IMF members to repay funds borrowed earlier and the level of repayments also have to be factored in when determining the net resources that are being made available. Net financial flows to the oil-importing Sub-Saharan African countries, excluding South Africa, still grew from $100 million in 1978 to $1.5 billion in 1981 and averaged over $1 billion a year from 1981 to 1983, falling in 1984 to $500 million. Over the period 1978 to 1984:

- *Zambia* heads the list with $766 million in net drawings. Since April 1978, the country has almost continuously implemented IMF-supported adjustment programs with one arrangement under the Extended Fund Facility and three standby arrangements. The latest standby arrangement extends through April 1986. Zambia's medium-term economic program is geared to strengthening the agricultural sector and to reducing the country's almost total dependence on copper production.

- *Ivory Coast* had net drawings of $694 million, mainly through a 1981-83 Extended Arrangement and from the Compensatory Financing Facility. Ivory Coast's medium-term economic objectives include reducing public-sector deficits and promoting import substitution and export industries.

- *Ghana* received $495 million, mostly under two standby arrangements since 1983 and from borrowing under the Fund's Compensatory Financing Facility. Accra's adjustment program focuses on restructuring domestic prices, reviving the agricultural sector, reducing the budget deficit, and restoring the competitive position of exports.

- *Zaire* had net drawings of $453 million, mostly from a 1981 Extended Arrangement and a standby arrangement that succeeded it. Kinshasa aims at rehabilitating agriculture, restoring the communications infrastructure, and improving production.

- *Nigeria* obtained $424 million from its reserve tranche in 1982-83 as its worsening current account deficits created foreign exchange shortages. The reserve tranche drawing was automatic and did not require an economic adjustment program.

- *Kenya* had net drawings of $404 million in the course of an Extended Arrangement and five standby arrangements during 1978-84, one of which was not used. Nairobi's immediate economic objectives include increasing private-sector agricultural production, restructuring government enterprises, and controlling its budgetary deficits.

- *Uganda* received $342 million. Kampala's economic program aims at broadening the country's economic base beyond agriculture and its strong dependence on coffee production.

For much of the period since 1978, several countries, while receiving fresh IMF funds, have been repaying loans received from the IMF's Oil Facility after the 1973-74 oil price hike and from the Compensatory Financing Facility for export earning shortfalls after 1977. As a result, Burundi, Cameroon, Chad, Congo, and Tanzania were net payers of funds to the IMF for the period 1978-84. 25X1

The IMF and Economic Adjustment Programs

From an individual country standpoint, involvement with the IMF is not simply limited to financial flow considerations. The issue of conditionality is also critical in dealing with the Fund. Since the mid-1950s, the Fund has required some degree of effort by a borrowing country to overcome its balance-of-payments difficulties in return for the use of its resources. This position was underscored by a 1979 decision by the IMF Executive Board, which reiterated the need for members to adopt corrective measures under the Fund's guidelines. Standby and extended borrowing arrangements, which have governed the bulk of IMF financial support in recent years, require consultations with the Fund on adjustment programs that determine the conditions on which funds will be supplied. 25X1

The conditions attached to IMF adjustment programs can help a country return to a sustainable balance-of-payments position by correcting the underlying policy initiatives that helped contribute to the payments problem. Programs seek to establish the right signals at the macroeconomic level by using a wide range of policy tools involving taxation and spending, credit, interest rates, exchange rates, labor markets, and prices to encourage a shift of resources toward greater production of export- and import-competing goods and services and to discourage excessive spending on imports. Often, adjustment will involve a short-term reduction in aggregate demand as well as a shift in expenditures, because previous policies had contributed to an unsustainable expansion of demand and rising inflation that had increased the gap between domestic demand and production. The adjustment policies, therefore, almost invariably involve some short-run sacrifice as the country's production is diverted to investment and exports, which are viewed by the Fund as promoting longer run economic growth and improving the balance-of-payments position.

Performance Under IMF-Supported Programs: A Functional Perspective

In viewing the performance record under IMF-supported programs, it is useful to take a functional perspective. In making such a review, payments, price, and production profiles capture the impact Fund programs have had.

Balance of Payments. The balance-of-payments record since 1978 for Sub-Saharan countries with IMF-supported programs shows that the programs have not resolved the balance-of-payments problems of the region. They have, however, clearly limited the deterioration that otherwise would have occurred, if nothing else than by reducing import demand. In 1979, the best year for balance-of-payments performance with IMF-supported programs, 56 percent of the African program countries showed improvements as measured by changes in their gross international reserves.

The improvements for individual countries reflected a variety of factors, some of which were not connected with their programs. Examining balance-of-payments performances for calendar years that were preceded by an IMF-supported program, we found that improvements in crude oil output and prices were largely responsible for the gains of Congo in 1979 through 1981, and Gabon in 1980. Rising export prices for tea played a role in all gains recorded by Kenya since 1978; food donations from abroad as substitutes for potential grain import payments also helped the payments position. 25X1

This is not to say Fund programs did not make an impact. Austerity measures by their very nature help hold down imports. Moreover, realigned exchange rates, more attractive local producer prices, and the like also help reduce balance-of-payments pressures. A review of country performances suggests that import constraint associated with adjustment programs played a major role in Ivory Coast and South Africa (1983) as well as Togo (1981-83). External debt relief or rescheduling obtained as an adjunct to IMF-supported programs also contributed to balance-of-payments improvements. Malawi, Niger, and Sierra Leone in 1983 are examples of this. 25X1

25X1

Inflation. The performance of the Sub-Saharan countries in reducing their inflation rates under IMF-supported programs has been mixed. According to country statistics, the two best years were 1978 and 1981. In 1978, six of 10 program countries had lower inflation rates; in 1981, 13 of 20 countries had similar results. 25X1

25X1

While austerity measures associated with Fund programs helped hold down demand, IMF economic surveys of Sub-Saharan countries suggest that external factors have also been important in curbing inflation. For example, Ivory Coast's reduced inflation rate in 1981 was attributed by the IMF to both the government's stabilization policies and reduced imported inflation from industrial nations. Reduced inflation in Central African Republic from 1980 to 1983 was caused not only by lower domestic purchasing power but also by increased illicit and cheaper import trade and by the lagged effect of price controls 25X1
in France, the country's largest trading partner. In some cases, statistical factors played a role. In Zaire and Zambia, falling export unit values for copper in 1981 were largely behind reduced inflation rates because copper loomed large in the basket of goods used in computing the GDP deflator, the price index for total output. 25X1

Economic Growth. The economic growth targets in an IMF-supported program are near-term goals consistent with the program's major objective of achieving balance-of-payments viability. The program is, however, expected to create favorable conditions for long-term economic growth. [redacted]

On the basis of IMF and country economic data, we conclude that most improvements in the economic growth of program countries to date have been the result of factors other than the programs themselves. Given the spotty performance in meeting targets and the brief period most programs have been in effect, this is not unexpected. Looking at the growth performance of Sub-Saharan Africa, we note that agricultural production, influenced largely by weather, provided the stimulus for most gains, particularly because the austerity programs tended to curtail public investment, an important engine of growth in the region. Agriculture accounted for improved economic growth in Malawi (1983), Mali (1982), Mauritius (1981-82), Somalia (1981), Zambia (1983), and Zimbabwe (1981). In Malawi the recovery of the previously depressed construction sector also aided the economy. [redacted]

Despite the positive role of factors outside the adjustment programs, Fund involvement has had some payoffs. Kenya's currency devaluations and producer price adjustments largely influenced the resurgence of agriculture and growth in 1981 and 1983, in our judgment. At the same time, the government's decision outside the context of the IMF program to build a strategic corn reserve also helped to boost agricultural production. In Zaire, the easing of restrictions on diamond mining by private artisans as part of an economic reform package made a favorable contribution to growth in 1983, according to an IMF appraisal, although oil and mineral production also helped independently of the reform program. [redacted]

Table 4
Sub-Saharan Africa: Assessment of Economic Performance Under IMF Programs

25X1

	Moderate Success	Less Successful
Central African Republic		●
Congo	●	
Equatorial Guinea	●	
Ethiopia		●
Gabon	●	
Gambia, The	●	
Ghana	●	
Guinea		●
Ivory Coast	●	
Kenya	●	
Liberia		●
Madagascar	●	
Malawi	●	
Mali	●	
Mauritania	●	
Mauritius	●	
Niger	●	
Senegal	●	
Sierra Leone		●
Somalia	●	
South Africa	●	
Tanzania		●
Togo	●	
Uganda		●
Zaire	●	
Zambia		●
Zimbabwe	●	

[redacted]

25X1 25X1 25X1

Performance Under IMF-Supported Programs: A Country Perspective

One way of assessing the impact of both IMF financial involvement and conditionality in Sub-Saharan Africa is by looking at performance on a country-by-country basis. [redacted] we believe that the economic adjustment programs have to date yielded mixed results. Some countries have met with moderate success but remain vulnerable to external economic forces or natural disasters. Others have had little positive results after years of effort of varying intensity (see table 4). [redacted]

25X1 25X1

Moderate Successes. *Ghana, Ivory Coast, Kenya, Mali, Senegal, Togo,* and *Zaire* are illustrative of the countries that have been moderately successful in

25X1

bringing their payments imbalances back in line. Most of these countries have had trouble at times meeting the targets set in their IMF programs, however, and all require continued adjustment efforts to achieve or maintain economic stability. [redacted]

Ghana has been implementing an economic adjustment program since 1982, with the support of the IMF and Western donors, that calls for substantial currency devaluation, reduced public expenditures, gradual liberalization of price controls, and the rehabilitation of key economic sectors such as agriculture and transportation. So far, all IMF conditions have been met, and the US Embassy estimates that the economic decline has been halted. We believe, however, that sustained recovery from a decade of economic decline is still far off. [redacted]

Ivory Coast has been under an IMF program since 1980. After using its windfall earnings from the 1974-78 commodity boom to launch ambitious development projects, Ivory Coast was caught short for funds when the boom ended. The initial objectives of the IMF program were to cut both the public-sector and current account deficits. Some improvement has occurred—between 1980 and 1984 the current account deficit was reduced from $1.3 billion to $500 million and, because of curtailed public spending, the annual inflation rate dropped from 15 percent to 4 percent. Abidjan failed to meet December 1984 performance criteria, however, and the IMF canceled its program in February 1985. Negotiations are under way for a new arrangement. [redacted]

Kenya has had problems in carrying out the almost continuous IMF adjustment programs since late 1978, with three of the six accords terminated for failure to meet the IMF's conditions. Even so, Nairobi has made substantial economic adjustment over the years. The Kenyan shilling has been allowed to float on the foreign exchange market after initial devaluations in 1981 and 1982. The government has liberalized the import regime and the external payments system and has imposed strong budgetary and credit restraints. [redacted] between 1981 and 1984 Kenya slashed the inflation rate for consumer prices in half to 10 percent, it reduced the overall budgetary deficit as a percent of GDP from 10 percent to 5 percent over the same period, and it recorded overall balance-of-payments surpluses in 1983 and 1984. The IMF presently regards Kenya's current account deficits, including that of about $500 million projected for this year, as "sustainable." Mainly because of one of the worst droughts in Kenya's history, however, the 25X1
economy experienced no economic growth last year, and most observers expect it will be slow to rebound. [redacted] 25X1

Mali's adjustment program with the IMF started in November 1983. The country has made satisfactory progress since then, according to IMF assessments. Public-sector wages have been frozen since 1981, government hiring has been curtailed, and Bamako is liquidating some public enterprises, including the national airline. External arrears are being reduced, and credit expansion has been well within the limits 25X1
set by the program. [redacted] 25X1
[redacted] the government remains committed to 25X1
reform, despite drought conditions that have substantially reduced cereal production and the livestock herd. [redacted] 25X1

Senegal's economic adjustment efforts with IMF and other external support date back to 1979. Through 1983, results were mixed because the programs were not always maintained. Better results have been achieved since then with a more rigorous application of policy measures by the government. Dakar curbed credit growth, applied strict controls to budgetary expansion, instituted tax reforms, and introduced pricing measures to promote agricultural production. Despite being hit hard by drought, Senegal achieved 25X1
its financial objectives in the IMF-supported program ending June 1984. Within 12 months, the fiscal deficit as a percent of GDP fell from 8 percent to 5 percent. Dakar also reduced its current account deficit from 14 percent to 11 percent of GDP. The overall balance-of-payments deficit was halved. The country is continuing its adjustment effort under a new 18-month standby arrangement with the IMF from mid-January 1985. [redacted] 25X1

Togo has been receiving good marks since 1983 for its adjustment efforts with financial support from the 25X1

IMF, World Bank, and bilateral donors. Earlier programs were less successful. Present adjustment measures include the promotion of rural development, the overhauling of tax and customs administration, restraints on public hiring, and a restrictive monetary policy. Among the economic gains from its adjustment program, Togo's 1984 current account deficit of about $140 million was less than one-half that of the 1979 peak. The overall fiscal deficit as a percent of GDP was smaller than the program called for. Lome has curbed inflation; based on partial data, we believe that prices may actually have fallen last year. The IMF estimates that real economic growth was about 1 percent in 1984 after continuous decline since 1980, but the economy remains affected by drought. [redacted]

Zaire appears committed to carrying out its latest of a series of IMF-supported programs that date back to 1977. The present program has included drastic exchange rate changes, tax reform, tight budget practices, and credit controls. The IMF regards the program as successful so far. The inflation rate fell from 76 percent in 1983 to an estimated 47 percent last year, the 1984 current account deficit of $230 million was smaller than the program called for, and payments on rescheduled external debt are on time. Unresolved problems, according to local reports, include the restructuring of public corporations and the rehabilitation of the agricultural sector. [redacted]

Among other countries maintaining adjustment programs with moderate success, *Malawi* has sustained a rising growth rate and falling inflation in recent years. *Madagascar*'s performance has been favorably viewed by the Fund, although debt service problems remain unresolved. [redacted]

Less Successful Countries. Liberia, Tanzania, and Zambia are among the countries that have been less successful with their adjustment programs. Liberia has been receiving almost uninterrupted IMF support from 1979; Zambia has had four IMF programs from April 1978. Tanzania has had one partially completed program since 1980 and has been implementing some adjustment measures as groundwork for a new IMF program yet to be concluded. [redacted]

Liberia's economy has been in an almost constant crisis for several years. [redacted] 25X1 the government has been faced with huge debt service payments, a burdensome wage bill because of a doubling of the public-sector minimum wage in 1980, and weak markets since 1982 for the major exports of iron ore, rubber, and timber. Monrovia had achieved some degree of success in its adjustment efforts by June 1984 through measures such as salary and hiring freezes, new taxes, and improved debt management. The annual inflation rate had fallen to 2 percent, external arrears had been eliminated, and an economic growth rate of 1 percent had been achieved after four years of decline. The country's precarious financial position, however, has worsened considerably 25X1 since mid-1984. There have been serious revenue shortfalls, partly because of a diminished tax collection effort, and substantial unbudgeted expenditures. External arrears have been accumulating once again, and funds earmarked for debt service and essential imports are being diverted to meet other current expenditures such as salaries, according to Embassy reporting. The IMF program has been suspended since December because of Monrovia's failure to make repayments to the Fund. Economic assistance from bilateral sources, the European Community, and the World Bank has been held up as a result. [redacted] 25X1

Tanzania, in our judgment, has met with scant success in its adjustment efforts. 25X1 The economy has been hurt by high oil prices, drought, and weak prices for coffee exports. More important, the IMF concludes production has been hampered by low official prices paid to agricultural producers and by an economic development policy that has nationalized key economic sectors, including wholesale marketing and transportation. 25X1 The country has been without an IMF-supported program since an existing arrangement—made before hostilities with Uganda disrupted economic conditions—expired in 1982. Some economic adjustment measures have been implemented and reform measures last year included a currency devaluation and higher producer prices for staples such as coffee, cotton, and tobacco. We believe these measures have been too little and too late. The government has not extensively dismantled its network of 25X1 money-losing public enterprises, and the economy has shown negative growth each year since 1980.

Zambia's economic adjustment efforts have been stymied by a continuous decline in the purchasing power of copper exports, which have accounted for about 94 percent of the country's total exports since 1980. The resulting shortage of foreign exchange has hampered mining production, budgetary deficits escalated through 1982, and the government has depended heavily on domestic banks and the accumulation of substantial arrears on its indebtedness to help finance its operations. The present adjustment program calls for repeated currency devaluations, reduction of external payments arrears, tax reform, and a restrictive monetary policy. Despite reductions in the current account deficit since 1981, the financial situation remains serious, in our view. We do not expect a significant economic turnaround until copper prices recover. Over the longer term, we expect the Zambian economy to remain unstable until it diversifies from its dependency on copper mining.

Obstacles to Successful Adjustment

Sub-Saharan African countries have faced several internal and external constraints to implementing economic adjustment programs successfully. Most countries have had to contend in recent years with poor weather conditions, which restrict the agricultural supply response to adjustment programs. The protracted drought in Sub-Saharan Africa has adversely affected practically every country with an IMF-supported adjustment program, especially *Central African Republic, Sierra Leone, Niger,* and *Togo.* Because of the serious setbacks to agriculture, these countries face bleak economic prospects even with adjustment programs in place. Externally, the success of adjustment programs has been highly influenced by capital inflows from sources other than the IMF, not always available in predictable amounts, and on the weak demand for exports of nonagricultural primary products.

IMF reviews of particular adjustment programs in Sub-Saharan Africa indicate that at least some of the fiscal and monetary failures under the programs are attributable to the countries themselves. Many countries have had difficulty in meeting the fiscal and monetary targets of the programs, partly, we believe, because of their fears of possible adverse political consequences from slashing government expenditures. 25X1
Regardless of the reason, absence of proper financial controls was, according to the IMF, largely the cause of Kenya's expenditure overruns in 1980-81. Slow action in reorganizing money-losing state enterprises has impaired IMF-supported programs in Equatorial Guinea and Kenya. The inability of the Central African Republic, Congo, and Ivory Coast to implement fiscal cutbacks also caused these countries to fail to meet performance criteria. 25X1

The Political Fallout

The governments of Sub-Saharan countries have, on occasion, encountered internal opposition to economic adjustment programs that have been implemented with or without IMF support. The opposition has tended to come from urban-based groups because economic adjustment packages attempt to redress the less favorable treatment of rural producers by African governments. According to US diplomatic reporting and recent studies:

- In *Ivory Coast,* where an IMF-supported adjustment program has been under way since 1981, 25X1 teachers organized a strike in 1983 against reduced housing subsidies, and elements of the General Union of Workers attempted to block the government's price increases on certain goods and public services in early 1984.

- In *Liberia,* an announced increase in rice prices in 1979 triggered a violent demonstration against the Tolbert regime.

- In *Mali* last year the national trade union federation, one of the constituents of the country's only political party, publicly expressed opposition to the adjustment program, particularly the restructuring of government corporations.

- In *Zambia,* the Congress of Trade Unions threatened in July 1984 to boycott a national conference 25X1 on the economy unless the government rolled back an announced 20-percent increase in cornmeal prices. Later in the year, Zambian National Provident Fund workers struck twice in the aftermath of a 70-percent price increase for bread and in protest against generally worsening economic conditions. None of the price increases was canceled. [redacted]

According to academic studies, an additional source of pressure has come from the fact that austerity measures cut into the large development spending programs that have been used in the past to buy political favor and maintain internal allegiance. Numerous examples exist. Among the more infamous of the large investment schemes are the Inga Shaba dams and the 1,800-km power transmission line in Zaire. This $2 billion project was designed to strengthen the dependence of the copper-rich Shaba Province on other parts of the country and so discourage separatist tendencies. Zaire was by no means alone in making costly and questionable investments. In the early 1970s, when world sugar prices were high, the government of Ivory Coast decided to build a series of 10 (later scaled down to six) sugar-processing plants in the north of the country. As with Zaire, the purposes of this venture had strong political overtones: to provide the relatively poor north of the country with an employment- and income-generating industry to achieve national self-sufficiency in sugar production and to expand and diversify exports. Sugar prices collapsed shortly after the investments were begun, and the cost to produce the new sugar turned out to be well above the world prices. Perhaps the most visible and sustained foreign exchange spending binge in the whole of Africa has been that of Nigeria. Not only were a host of ambitious investment projects undertaken with oil revenues, including a new capital and what may become the world's most expensive steel mill, but revenues were allocated automatically to governors of Nigeria's states for their use with little accountability or control. [redacted]

As a counter to internal pressures against adjustment, country leaders also have to consider the pressure brought by foreign governments that increasingly are linking their own support to adoption of IMF-supported adjustment programs. This new element comes after years of official economic assistance based on grants and project loans with no economic adjustment conditions. Sorting through these pressures has been by no means easy. In *Ghana,* for example, President Hilla Limann resisted loan arrangements with the IMF involving economic policy conditions while protracted negotiations took place in 1980 and 1981. His successor, Flight Lieutenant Rawlings, apparently recognized the harsh realities of economic chaos and the inability to obtain additional bilateral funding without economic adjustment—Ghana has had two standby arrangements with the IMF since mid-1983 and has been vigorously applying the economic policy measures that Limann opposed a few years earlier. [redacted] 25X1 25X1

In some other countries, political concerns have delayed reaching any consensus with the Fund:

- In *Nigeria,* despite the country's serious financial position, the military administration maintains an anti-IMF attitude as suggested in the published statements of Head of State Buhari and Chief of Staff, Supreme Headquarters, Idiagbon. Senior civil servants in the government, however, feel that eventually Nigeria will have to turn to the IMF, according to Embassy reporting. [redacted] 25X1
- In *Tanzania,* IMF negotiations since 1980 on a standby arrangement have been particularly difficult because of the resistance of President Nyerere to the proposed economic reform. Having committed himself since 1967 to an economic development philosophy of African socialism, Nyerere cites the political risks of retreating from that position, according to US Embassy reporting. [redacted] 25X1

Even where programs are in place, resistance remains. For example, in *Kenya,* where an IMF-supported program has been producing positive results, President Moi has protested US and World Bank conditionality recently while asking, at the same time, for more US economic aid. [redacted] 25X1 25X1

Outlook and Implications

We expect the substantial IMF involvement in economic adjustment programs in Sub-Saharan Africa to continue for at least several more years. The countries with serious balance-of-payments problems cannot avoid IMF financial support because they are no longer able to finance their current account deficits with bilateral official financial inflows as they did in the past. Moreover, we can see little prospect that industrial-country aid donors such as the United States, the United Kingdom, and West Germany will ease their insistence on IMF-supported economic reform programs as a condition for continued economic assistance.

We do not expect the increased reliance of Sub-Saharan African countries on IMF support to put any financial pressure on the Fund. The IMF quotas of these countries, which broadly limit the funds they may borrow, are only 20 percent of the quotas for all nonoil LDCs combined. Within the African group, Nigeria excepted, there are no relatively large troubled economies like Argentina, Brazil, India, and Mexico with the potential for $1 billion IMF loan packages. In addition, the use of IMF resources by non-African LDCs will probably diminish with the positive impact of economic recovery in industrial countries on their balance of payments, thus freeing up resources for the hard-pressed African economies.

We believe that the Sub-Saharan countries face large current account deficits for the rest of the decade and will remain vulnerable to fluctuations in their current account positions. The large current account deficits will continue because of the likelihood of weak export performance, particularly from an agricultural sector buffeted by drought and volatile foreign demand for minerals, and the certainty of continued dependence on food imports for many years to come.

Over the longer term, we do not see the African countries as able to shift significantly from their role of producers and exporters of primary products. Nearly all—with the possible exception of South Africa—lack the potential for more diversified investment in processing and manufacturing on a scale that would make them competitive internationally.

The longer term economic outlook for those remaining dependent on primary products is bleak. The potential exists for a long-term fall in the prices of some of Africa's primary export commodities because of technological advance. For example, the development of new production techniques allows for the use of cheaper raw materials or synthetics in place of rubber and a number of metals. Fiber optics could largely eliminate the use of copper wire in telecommunications, which would have a severe impact on Africa's two largest copper producers, Zaire and Zambia. Africa's weakened economic condition also will limit its ability to capitalize on such potentially advantageous conditions as improved markets for its products. 25X1
Deterioration of existing facilities will probably erode the region's capacity to increase production and to move larger volume through the transport system. Favorable world conditions would help Africa only minimally, in our judgment. Should the global environment turn negative, it would have a deep and longlasting impact because of the region's lack of economic, political, and social resilience. Furthermore, we believe that, as other regions move rapidly to acquire increasingly advanced technology, the gap between Africa, already the world's poorest region, and the rest of the world will continue to grow. 25X1

Given the region's current economic conditions and longer run outlook, the United States may be asked to play a major role in the additional external financing 25X1
that the Sub-Saharan African states will require. This will probably take the forms of special funds for Sub-Saharan Africa, increased financial resources for multilateral financial institutions including the IMF, and higher levels of bilateral economic assistance. Given the dimensions of the region's economic problems, even a well-meaning response is likely to fall short. This in turn will only increase the complexity of dealing with Africa in the years to come. 25X1

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Appendix A

The IMF Experience: Selected Case Studies

This appendix illustrates the range of African experience with the IMF by examining the implementation of economic adjustment programs in four countries. *The Gambia* represents a small African economy, almost totally dependent on peanut production, that has been implementing IMF-supported programs for several years with modest success. *Ghana* illustrates a country with markedly different economic policies and performance before and after IMF programs. *Kenya* is a relatively large African economy that has been receiving IMF support for several years with initial failures and later successes after persevering with economic adjustment. *Tanzania* typifies resistance to IMF programs and a failed economy after years of strong bilateral economic assistance. 25X1

The Gambia: IMF Standby Arrangements

1978	*Standby arrangement for $3 million for period 18 May 1977 to 17 May 1978. Fully drawn.* 25X1
1979	*Standby arrangement for $2 million for period 2 November 1979 to 1 November 1980. Fully drawn.* 25X1
1982	*Standby arrangement for $19 million for period 22 February 1982 to 21 February 1983. Fully drawn.* 25X1
1984	*Standby arrangement for $13 million for period 23 April 1984 to 22 July 1985. Canceled in May 1985.* 25X1

The Gambia

The Gambia has had four standby arrangements with the IMF during 1978-84—including a one-year arrangement begun in May 1977—with moderate success. Although Banjul departed from some program targets, IMF loan commitments under three of these standbys were fully drawn. The fourth arrangement was canceled in May 1985 for failure to meet IMF performance criteria.

Background

After several years of stability, The Gambia's economy started to deteriorate in 1975-76.[4] Substantial government wage increases granted in mid-1975 contributed to a building up of demand pressures over time, with an adverse impact on the current account and on price trends. At first, increases in capital inflows helped finance the widening current account deficits. In 1977-78, the country's external position became more serious as a severe drought adversely affected agricultural production and exports. The worsening current account position in this period was not fully compensated for by capital inflows, and balance-of-payments financing problems soon arose. The Gambia's balance-of-payments position since then has been largely affected by the impact of weather on agriculture. 25X1

Economic Adjustment Programs

The Gambia's economic adjustment programs are largely determined by the country's five-year development plans that have been implemented since 1975. The country had mixed success with the 1977-78 and 1979-80 standby arrangements. Although it attained many objectives of the 1977-78 standby, the country exceeded the prescribed ceiling on domestic credit. It met all IMF conditions for the 1979-80 standby arrangement. 25X1

25X1

The Gambia continued economic stabilization efforts in 1981 and made substantial progress through 1983 in reducing external and internal imbalances because of improved weather conditions and higher producer prices. Real GDP grew by 11 percent in FY 1981/82 and by 13 percent in FY 1982/83. 25X1

25X1

[4] The Gambia's scanty economic data are compiled on a fiscal year basis, ending 30 June.

Table 5
The Gambia: Selected Economic Data [a]

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 [b]
Current account deficit [c] (*million US $*)	57	59	113	105	68	60	47
Change in gross reserves [d] (*percent*)	8	−96	400	−40	200	−67	−38
Inflation rate [e] (*percent*)	1	10	10	5	7	−3	13
GDP growth rate (*percent*)	0	16	−10	6	11	13	0

[a] Fiscal year ending 30 June.
[b] Estimated.
[c] Goods, services, and private transfers.
[d] Calendar year.
[e] Performance of GDP deflator.

[redacted] 25X1

The Gambian authorities failed to continue the program's policy prescriptions after the expiration of the 1982-83 standby, and the drought returned, causing GDP growth to stagnate in FY 1983/84. Public revenues—based largely on import duties, income taxes, and levies on peanut production and sales—declined with the downturn in economic activity, causing the authorities to increase their borrowing from the banking system to cover the shortfall. [redacted]

The partially completed and now canceled 15-month standby arrangement for the period ending July 1985 was intended to correct the worsened economic situation. Its policy prescriptions included a 25-percent devaluation of the dalasi and increases in producer prices, fertilizer prices, and charges by public enterprises. Some adjustment measures were taken before the standby arrangement started. To stimulate production, Banjul raised retail prices for rice by 14.6 percent in February 1984. To encourage saving, it increased interest rates on savings and time deposits by 2 percentage points the same month. It also improved controls over government expenditure. [redacted]

Despite the vigorous application of economic adjustment measures, The Gambia failed to meet all the June 1984 performance criteria pertaining to credit expansion and external arrears. The IMF has regarded this failure as partly beyond the control of the Gambian authorities. For example, delays in processing the peanut crop for export because of the need to divert transportation to distribute drought relief delayed export sales. In addition, Banjul did not receive expected economic assistance funds from abroad on time. The repercussions from the setback in peanut harvesting fatally compromised the IMF arrangement 25X1
because the fiscal targets of the program were mainly based on the estimated harvest. The IMF suspended the arrangement in February 1985 because it believed the targets would no longer be met and because The Gambia had incurred arrears of payments to the Fund because of financial pressures.The Gambia has since made the required payments to the IMF, but the standby arrangement was canceled in May. [redacted] 25X1

Economic data for the first half of 1984 suggest that the recent economic downslide in The Gambia has been halted, but The Gambia's deep-rooted economic and financial problems clearly require continued IMF-supported programs to keep the economy on an even keel. The government has experienced no adverse 25X1
political repercussions in implementing its economic adjustment programs. [redacted] 25X1

Table 6
Ghana: Selected Economic Data

	1978	1979	1980	1981	1982	1983	1984
Current account balance [a] (*million US $*)	−109	41	−54	−508	−192	−294	−230 [b]
Change in gross reserves (*percent*)	76	4	−31	−23	−2	1	107
Inflation rate [c] (*percent*)	73	39	46	90	21	110	48 [b]
GDP growth rate (*percent*)	8	−3	0	−2	−7	1	3 [b]

[a] Goods, services, and private transfers.
[b] Estimated.
[c] Performance of GDP deflator.

25X1

even keel. The government has experienced no adverse political repercussions in implementing its economic adjustment programs.

Ghana

Ghana has entered into three standby arrangements with the IMF since 1978 to support its economic adjustment programs, but it had achieved little success until last year. Under the first of these arrangements, made in 1979, approximately $40 million (of an allocated $68 million) in IMF funds were drawn before the arrangement petered out in the aftermath of a military coup in the same year. Accra met all performance criteria for the second arrangement in 1983-84. A third arrangement quickly followed and extends through December 1985.

Background

Ghana's economic situation worsened substantially in the late 1970s under the cumulative pressures of large budgetary deficits, rapid expansion of the money supply, and the maintenance of a fixed exchange rate despite high rates of inflation. Supply shortages attributable to intermittent drought and to official price controls that offered inadequate incentives for production aggravated the inflationary impact of expansionary fiscal and monetary policies.

These conditions eventually generated a loss of internal and external confidence in the economy. Capital inflows fell off and, with declining export earnings, indirectly caused import volumes to fall. Shortages of imported machinery and raw materials led to further declines in production and to deterioration in the country's infrastructure. Caught in this downward economic spiral, the Ghanaian economy has yet to recover. Consumer prices are presently 17 times higher than they were in 1978. Cocoa production, the mainstay of the economy, is 40 percent lower.

25X1

25X1

Economic Adjustment Programs

The Ghanaian authorities started an economic stabilization program in mid-1978 and entered into a one-year standby arrangement with the IMF in 1979. The overthrow of the Acheampong military administration in July 1979 by a military faction headed by Flt. Lt. Jerry Rawlings and the near anarchic conditions that followed disrupted the stabilization program. Rawlings left office after general elections the same year, but his successor, President Hilla Limann, felt restricted in the economic measures he could implement by fear that Rawlings would seize power again.

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25X1

Ghana and the IMF were involved in protracted negotiations on a new standby arrangement for the entire period of Limann's administration, from 1979 to 1981. Ghana initially opposed a devaluation of the cedi, one of the IMF's conditions for the standby,

25X1

Ghana: IMF Standby Arrangements

1979 *$68 million for period 10 January 1979 to 9 January 1982. Arrangement abandoned by Ghana after a partial drawing and in aftermath of 1979 military coup.*

1983 *$255 million for period 3 August 1983 to 2 August 1984. Fully drawn.*

1984 *$185 million for period 27 August 1984 to 31 December 1985. Partially drawn and still active.*

despite the extraordinarily high rate of inflation and an official rate 15 times greater than the black-market exchange rate for the cedi. The Ghanaian authorities were apparently mindful that a currency devaluation had been commonly believed to have been the reason for the country's initial military takeover in 1966 as well as for the coup in 1979 and that Rawlings had earlier declared himself against devaluation. In dealing with the IMF condition of higher prices for cocoa producers, Limann faced a tricky issue. The higher prices would benefit principally the Ashanti who were not among his ardent political supporters. In addition, he opposed an initial IMF recommendation to pass through to consumers the higher petroleum prices that would result from the currency devaluation on the grounds that this policy measure would destabilize his government. As Ghana's economic downturn accelerated, Rawlings ousted Limann in December 1981.

Although the new Rawlings regime initially had no economic reform program, the threat of a countercoup by the Army because of the unabated economic crisis induced the administration to adopt one. Ghana resumed negotiations with the IMF and by October 1982 had agreed on all points except the size of the currency devaluation. The authorities implemented far-reaching adjustment measures in April 1983, followed by an austerity budget in June, which together set the stage for a $255 million, 12-month IMF standby arrangement in August.

The economic adjustment measures adopted by Ghana in 1983 included depreciation of the foreign exchange rate by nine-tenths over a six-month period; passing the full cost of imported crude oil to consumers; and reducing external payment arrears of $600 million in April 1983 by some $100 million. So far, all IMF conditions have been met. 25X1

Relatively slow responses on the supply side have caused the Ghanaian authorities to implement a new 25X1 $185 million standby arrangement to cover the second half of 1984 and the calendar year 1985. The program calls for further devaluation of the cedi, the redeployment of redundant civil service personnel, an increase 25X1 in cocoa producer prices, and a further reduction of the budget deficit as a percent of GDP. These are the same measures that Ghana resisted three years ago. 25X1

Kenya

Kenya achieved moderate success in its reform effort last year after almost continuously implementing IMF-supported programs under standby arrangements since 1978. Three of five arrangements between 1978 and 1984 have been canceled but were shortly replaced by new ones perceived to be more consistent with the country's changing economic circumstances. Nairobi had problems in carrying out its IMF-supported programs in 1981 and 1982, but substantial adjustment has been made over the years in domestic demand, the government's budget, and the balance of payments. Kenya is continuing its economic adjustment policies over the medium term. 25X1 Partly as a result, Nairobi's economic prospects are better than average for Sub-Saharan Africa. 25X1

Background

Kenya registered strong economic growth at an average of 7 percent a year from 1963 to 72. The annual inflation rate was only about 2 percent a year. The country fell on hard times in the early 1970s as a result of oil price increases, declining agricultural

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Table 7
Kenya: Selected Economic Data

	1978	1979	1980	1981	1982	1983	1984
Current account deficit [a] (*million US $*)	735	579	1,006	798	575	294	240 [b]
Change in gross reserves (*percent*)	−32	77	−22	−53	−8	80	3
Inflation rate [b] (*percent*)	3	6	11	9	14	16	10 [b]
GDP growth rate (*percent*)	7	4	3	7	−1	4	0 [b]

[a] Goods, services, and private transfers.
[b] Estimated.
[c] Performance of GDP deflator.

25X1

productivity, an exploding population, and a stagnating manufacturing sector highly dependent on imports.

Although rising prices for export crops in 1976-77 temporarily stimulated the Kenyan economy, its structural weaknesses were fully exposed when coffee prices weakened in late 1977 and when the onset of drought threatened the country with famine and forced an escalation in food imports. With the drought, oil imports also rose sharply as hydroelectric capacity fell. Kenya's economic problems were compounded by the breakup of the East African Community in 1978 and by Tanzania's subsequent closing of its border with Kenya, which seriously hampered Kenya's exports in the region. Nairobi's finances were further impaired by large military purchases, impelled by security considerations, as unrest intensified in neighboring countries.

Economic Adjustment Programs

Kenya did not begin to address its economic problems seriously until late 1979. An earlier attempt under an IMF Extended Fund Facility loan in 1975 had been abandoned the same year when coffee export prices rose. As the current account deficit worsened to $700 million in 1978, the Kenyan authorities first relied mainly on public-sector borrowing and drawdowns in international reserves to finance it. The late 1978 standby arrangement with the IMF, involving drawings on Nairobi's first credit tranche, carried minimal conditions and was fully utilized in January 1979. The country next tried nonconditional borrowing on the Eurocurrency market as a financing alternative. This move swiftly proved unpalatable as Kenya was charged a then sizable interest rate of 1.5 percentage points above the London interbank offered rate (LIBOR) on a $200 million loan in July 1979. Retreating from commercial financing options, Kenya applied for a $158 million two-year standby arrangement with the IMF that same month and finalized the agreement in late August. Nairobi received a $55 million structural adjustment loan from the International Development Association in February 1980.

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Because of a violation of the IMF's loan conditions, Kenya was unable to draw on the 1979 standby arrangement when it attempted to do so in mid-1980. The IMF ruled that the planned payment of export subsidies by the Kenyan Central Bank instead of the Customs Department was a multiple exchange rate practice in violation of the standby. In any event, since August 1979 Nairobi had been finding it difficult to meet the quantitative ceiling on bank lending to the government.

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A new two-year standby arrangement with the IMF in 1980 was not a success. By mid-1981 Kenya had deviated markedly from program targets. It incurred

Kenya: IMF Standby and Extended Arrangements

1975	*Extended arrangement (Extended Fund Facility) for $82 million for period 7 July 1975 to 6 July 1978. Abandoned by Kenya after rising coffee and tea prices helped improve the balance of payments.*
1978	*Standby arrangement in the first credit tranche for $22 million for period 13 November 1978 to 19 August 1979. Fully drawn.*
1979	*Standby arrangement for $158 million for period 20 August 1979 to 19 August 1981. Unused and canceled, 14 October 1980, because of technical violation (multiple currency practice) of the original Letter of Intent.*
1980	*Standby arrangement for $314 million for period 15 October 1980 to 14 October 1982. Canceled 7 January 1982 after partial use because of failure to meet certain performance criteria.*
1982	*Standby arrangement for $167 million for period 8 January 1982 to 7 January 1983. Abandoned after credit ceiling violation and uncertain domestic situation following coup attempt in 1982.*
1983	*Standby arrangement for $188 million for period 21 March 1983 to 20 September 1984. Fully drawn.*
1985	*Standby arrangement for $84 million for period 8 February 1985 to 7 February 1986. Currently active.*

substantial government expenditure overruns partly because of inefficient controls and an unbudgeted 30-percent increase in civil service salaries. Attempts to rescue the arrangement proved futile, and it was replaced by a one-year standby, effective January 1982. By mid-1982 this agreement had broken down because credit ceilings were exceeded. Nairobi got another replacement standby arrangement that ran from March 1983 through September 1984. A 12-month standby arrangement from February 1985 presently supports the economic adjustment effort. 25X1

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Despite repeated failures of the Kenyan authorities to meet IMF performance targets, the Kenyan economy made some gains even on the basis of partially concluded programs. Fiscal expenditure and the current account deficit have declined as a percent of GDP every year since 1980. The central government's overall deficit as a percent of GDP has fallen from 9.5 percent in 1981 to 4 percent in 1984. 25X1 25X1

A notable feature of Kenyan-IMF relations since 1978 has been the willingness of the Kenyan authorities to follow IMF-supported programs in their economic adjustment efforts. The IMF, for its part, has been willing to renegotiate failed agreements. In the process, the Kenyan Government has not yet sustained any adverse political fallout from its longstanding client relationship with the IMF. 25X1 25X1

Tanzania 25X1

Tanzania has not been successful in its economic adjustment efforts. Since 1978 Tanzania has had one two-year standby arrangement with the IMF, in 1980. This arrangement was not fully utilized in the wake of hostilities with Uganda. Much of Tanzania's economic policy measures since 1980 have been preliminary to expected IMF-supported programs or have been alternatives to the programs. For much of this time the country has been involved in extended dialogue with the IMF on economic reform while being substantially supported by bilateral economic assistance. 25X1 25X1 25X1 25X1

Despite being the largest recipient of economic aid in Sub-Saharan Africa, having obtained about $2 billion since 1970, Tanzania's economic performance has been particularly disappointing, with only modest prospects of recovery in the medium term. The World

Table 8
Tanzania: Selected Economic Data

	1978	1979	1980	1981	1982	1983	1984 [a]
Current account deficit [a] *(million US $)*	617	492	674	501	615	388	441 [b]
Change in gross reserves *(percent)*	−65	−32	−71	−5	−79	425	NA
Inflation rate [c] *(percent)*	15	7	8	14	9	8	11 [b]
GDP growth rate *(percent)*	−4	3	4	−2	−3	−1	1 [b]

[a] Goods, services, and private transfers.
[b] Estimated.
[c] Performance of GDP deflator.

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Bank estimates that even with such a recovery Tanzania can only expect to regain 1970 consumption levels by the end of the decade.

Background

Tanzania entered the 1970s with a relatively strong balance-of-payments position but received a major setback in 1973-74 from drought and oil price increases. The country had a brief respite from economic decline in 1975-76 when coffee prices boomed. Since then, the Tanzanian economy has been deteriorating almost continuously, buffeted by the oil price increases of 1979-80, the collapse of the East African Community (1977), an expensive war with Uganda (1978-79) that cost some $500 million, and poor rainfall in 1980-81.

Structural changes in Tanzania's economy directly linked to the country's development strategy have been key factors in the economic dilemma. Tanzania radically altered its economic development strategy in 1967 to stress African socialism with government control of the means of production and widespread rural development. Since 1967 the country has experienced substantial growth in public-sector activity as ownership of key areas of production was transferred to public corporations. Agricultural exports stagnated because official pricing policies reduced incentives for production. Sustained expansionary fiscal policy in the late 1970s led to increased government reliance on bank financing to cover revenue shortfalls. Fiscal policy expanded aggregate demand but created inflationary pressure at the same time. Despite corrective measures, the pattern of disappointing agricultural production, weak export performance, and deficit fiscal policies continues. 25X1 25X1

Economic Adjustment Programs

With the collapse of coffee prices in 1977, a record current account deficit of $617 million in 1978, and a fall in official reserves by two-thirds the same year, Tanzania was prepared by 1979 to embark on an IMF-supported adjustment program. It agreed to interim adjustment measures prior to an anticipated standby arrangement. It devalued the Tanzanian shilling by 10 percent and programed import licenses for an almost 40-percent reduction in licensed imports in real terms. In 1979, Tanzania drew on the balance available in its first credit tranche at the IMF without a standby arrangement, obtained a loan from the Fund's Compensatory Financing Facility for export earning shortfalls, and borrowed from the IMF-administered Trust Fund for assisting poor LDCs. The hostilities with Uganda prevented the country from implementing the targets of the interim adjustment program, however. 25X1

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Negotiations between Tanzania and the IMF over the economic program for the 1979 standby arrangement soon reached an impasse as Tanzania resisted the

IMF's proposals, which included a large currency devaluation, reduced government spending, and relaxation of price and foreign exchange controls. Tanzania regarded the proposals as being at cross purposes with its development strategy, and, [redacted] Tanzanian officials who supported the IMF program were viewed as aligned with the IMF instead of Tanzania. [redacted]

Tanzania successfully negotiated an IMF-supported economic program involving a $230 million standby arrangement in 1980. Before the launching of the program, Tanzania implemented certain policy measures, which it expected the IMF to require, in an attempt to avoid the appearance of the IMF dictating policy changes. The government raised minimum prices selectively and targeted an 80-percent reduction in its budget. [redacted]

The 1980 adjustment program called for a ceiling of some $230 million on additional government borrowing and for a nearly 20-percent reduction in 1980-81 of external commercial arrears that had ballooned to $240 million. It made no provision for an early currency devaluation or for an overhaul of price and foreign exchange controls. Still, after a one-time drawing of $32 million, the standby arrangement went in limbo when Tanzania exceeded the performance criteria ceiling on arrears in October 1980 and the credit ceiling in December of that year. In addition, the economic scenario of the arrangement was no longer valid because of the fallout of the hostilities with Uganda. [redacted]

In the course of several discussions between Tanzania and the IMF in 1981 regarding a replacement standby arrangement, they reached no agreement on economic performance criteria or exchange rate policy. As an alternative course of economic action, the Tanzanian Government formulated a National Economic Survival Program centered on explicit commodity export targets to increase foreign exchange earnings and on strict control of government spending. It achieved none of the targets of the Survival Program. [redacted]

Tanzania's latest economic adjustment program has been a three-year structural plan for 1982-85. This program avoids specific production and export targets and places curbs on government spending and money supply growth. There are no provisions for a currency devaluation. The program assumes substantial drawings on IMF and World Bank funds. These drawings have not materialized because there is no IMF-supported program in place. In addition, the substantial bilateral economic aid from such countries as Sweden, the Netherlands, West Germany, and the United Kingdom that has helped to keep Tanzania afloat over the years has become less available as these supporters apparently recognize the need for an IMF-supported program to promote Tanzania's economic adjustment. [redacted]

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Tanzania and the IMF are still at odds regarding the economic policy reforms required for IMF support. The Fund's preconditions include a 60-percent currency devaluation, increases in producer prices, elimination of subsidies on inputs, and fiscal restraint measures. Tanzania has responded with a 26-percent currency devaluation in June 1984 and has raised producer prices for coffee, cotton, tobacco, and cashew nuts by as much as 55 percent. It has also eliminated subsidies on fertilizers. [redacted]

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The policy measures adopted by Tanzania in 1984 imply that the 1982-85 structural adjustment program has been modified to elicit IMF support. The measures have not been sufficient to secure an IMF endorsement, however. The Tanzanian economy languishes in the meantime, its economic performance dubbed "a failure" by the World Bank. [redacted]

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Appendix C

Sub-Saharan Africa: Net Financial Flows From the IMF [a]

Million US $

	1978	1979	1980	1981	1982	1983	1984	Total
Total [b]	**8.4**	**48.4**	**231.7**	**1,452.2**	**2,103.5**	**1,337.9**	**540.0**	**5,722.1**
Benin			2.5			1.9		4.4
Botswana								
Burkina								
Burundi	−4.1	12.3				−5.1	−4.9	−1.8
Cameroon	−5.8	−14.7	−16.7	−10.0	−3.3	13.4	7.2	−29.9
Cape Verde								
Central African Republic	−1.4	−3.1	1.9	16.4	2.0	5.8	0.2	21.8
Chad	−3.3	−1.5	−2.9	2.0		3.5	0.5	−1.7
Comoros				0.4			0.3	0.7
Congo	4.1	1.2	−6.9	−7.9		3.5	2.6	−3.4
Djibouti							0.6	0.6
Equatorial Guinea		−0.3	12.4	7.4		1.5	−6.2	14.8
Ethiopia	9.1	46.5		77.9	23.4	−19.2	−21.5	116.2
Gabon	12.5	9.7			−2.2	−8.0	5.3	17.3
Gambia, The	6.5	−4.5	2.1	10.6	16.2	−1.8	0.7	29.8
Ghana	−6.0	28.8	−12.6	−11.4	4.1	277.5	214.8	495.2
Guinea	−7.3	−1.8	−1.4	−5.2	12.5	5.0		1.8
Guinea-Bissau	1.0	1.4		2.8	−0.3		1.5	6.4
Ivory Coast	−30.2		15.9	387.6	127.4	179.4	14.0	694.1
Kenya	5.4	72.0	69.0	26.9	147.4	95.8	−12.1	404.4
Lesotho					2.2			2.2
Liberia		38.5	20.8	53.4	71.1	55.3	16.3	255.4
Madagascar	−3.3	−4.8	49.1	37.3	57.7	12.3	18.4	166.7
Malawi	−4.8	27.5	30.6	27.8	2.3	25.5	17.8	126.7
Mali	−1.5	−2.3	3.8	−2.7	26.8	17.0	21.3	62.4
Mauritania		−1.2	16.5	4.0	16.7	−2.5	−9.2	24.3
Mauritius		36.2	45.5	67.2	24.8	18.3	−6.9	185.1
Mozambique								
Niger						32.9	14.8	47.7
Nigeria					340.8	82.7		423.5
Rwanda								
Sao Tome and Principe							0.9	0.9
Senegal	18.9	7.9	48.0	60.5	44.0	28.3	17.4	225.0
Seychelles						0.7		0.7
Sierra Leone	−5.3	0.3	0.4	28.9	−0.2	23.1	11.0	58.2

Sub-Saharan Africa: Net Financial Flows From the IMF [a] (continued)

Million US $

	1978	1979	1980	1981	1982	1983	1984	Total
Somalia			7.8	30.5	35.5	50.7	−3.0	121.5
South Africa	−100.2	−310.1	−197.8		996.0	−53.4		334.5
Swaziland	0.2				4.7	10.7		15.6
Tanzania	−28.8	27.1	19.5	−12.3	−10.4	−20.3	−25.0	−50.2
Togo	−9.4		21.6	8.6		23.4	13.1	57.3
Uganda	−12.5	3.4	35.8	132.3	92.2	107.8	−17.1	341.9
Zaire	−12.1	−14.9	16.8	107.1	120.9	128.2	106.6	452.6
Zambia	186.3	95.2	7.8	367.9	−49.3	80.0	78.1	766.0
Zimbabwe			42.3	44.2		164.2	82.5	333.2

[a] Gross purchases minus repurchases (excludes transactions with the IMF-administered Trust Fund). SDR values converted to US dollars at period average SDR/$ exchange rates.
[b] Regional IMF totals adjusted for countries covered in this paper. Country data may not add to totals shown due to rounding.

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