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Looking to the Future: The IMF in Africa

It is in Africa that the future of the world is being played out, because it is in Africa in particular where the . . . forces that have yet to make their contribution are found: wealth in economic terms, and wealth in human terms.

Michel Camdessus
Managing Director of the IMF
January 19, 2000

At the IMF's creation in the 1940s, no one expected Africa to be an important part of the Fund's membership or a major focus of its work. Of the 40 original members, only 3—Egypt, Ethiopia, and South Africa—were in Africa, and they were scarcely representative.[1] Egypt was, and remains, more closely associated with the Middle East; and South Africa was under white minority rule. Between the Sahara and the Transvaal, Ethiopia was almost alone as an independent postcolonial country.[2] That situation began to evolve in 1957, when the newly independent countries Ghana and Sudan became IMF members. Applications soon flooded in, and by 1969 more than a third of the membership (44 of 115 countries) was African. The number, though not the percentage, continued to grow, and when Namibia joined in 1990, the IMF included all of Africa's 52 countries.[3]

Despite their large numbers, African members generally continued to play a relatively minor role in the Fund owing to their small size, generally low incomes, and

[1]In this History, Africa is defined to include all countries on the African continent and its offshore islands. The IMF's African Department, which was added to the organization chart in 1961, was responsible for relations with most, but not all, of these countries. For example, relations with Egypt were assigned to the Middle Eastern Department when that department was created in 1953, and work on several other countries in northern Africa—Algeria, Djibouti, Mauritania, Morocco, Somalia, and Tunisia—was assigned to the Middle Eastern Department in January 1993.

[2]Liberia, the only other independent country in the region at that time, participated in the 1944 Bretton Woods conference and was invited to become an original member of the IMF. The government, however, declined to join until 1962.

[3]In 1994, Eritrea separated from Ethiopia and became the fifty-third African member.

limited international trade. Even in the 1990s, they held less than 9 percent of the voting power and held only 3 of the 22 or 24 seats on the Executive Board.[4] They did, however, gradually begin borrowing in large numbers, albeit mostly in small amounts. Exceptionally, Ethiopia took out loans in 1948–49. Regular borrowing by African countries started in the late 1950s after Egypt used Fund resources to help cope with the effects of the 1956–57 Suez crisis. By 1975, the Fund had credits outstanding to 19 African countries: a third of the borrowers, but totaling just 8.4 percent of the total portfolio.

Lending to Africa increased dramatically in the late 1970s (Figure 14.1). From 1975 to 1982, the percentage of outstanding credits owed by African countries more than tripled, to 28.6 percent. This surge resulted from three separate developments.

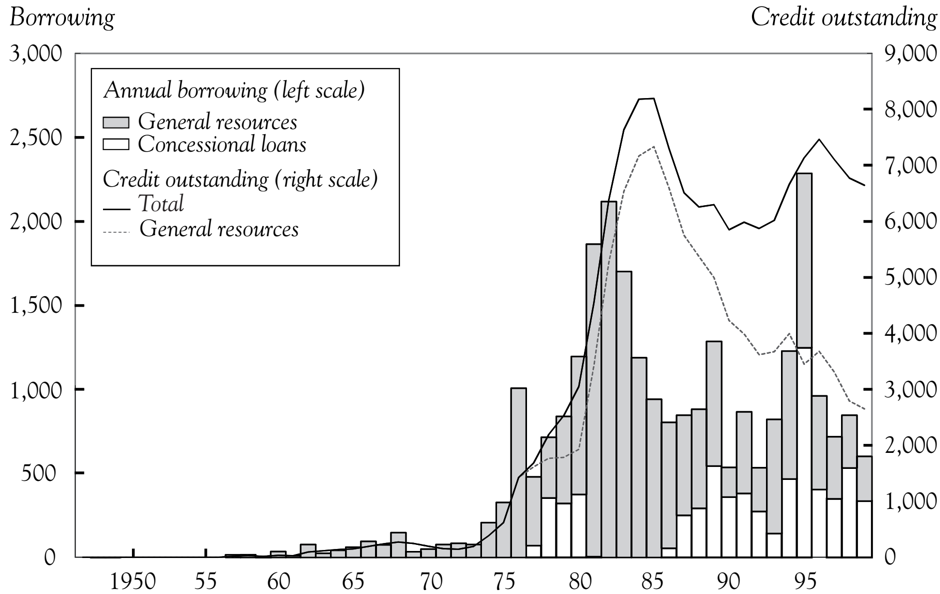
First, much of the growing African membership faced brutally adverse circumstances. Many of the newly independent countries suffered from extreme and entrenched poverty, with little access to safe drinking water, sanitation, health care, or even basic education. No one from a developed country who visited the region and saw these conditions first-hand could have failed to be moved by the need for development support, including financial aid, other material assistance, and policy advice. Even if the solutions lay beyond the boundaries of the IMF's institutional mandate, the problems could not be ignored. In the 1970s, sharply higher prices for imported oil, stagnant export markets, and (in the latter part of the decade) declining prices for a wide variety of Africa's primary-commodity exports added to the misery. Consequently, the region desperately needed stabilization financing on top of its persistent need for development assistance.

Second, the IMF was introducing new lending instruments for (though not limited to) meeting the needs of low-income countries and commodity exporters. The first of these specialized facilities, the Compensatory Financing Facility (CFF), created in 1963, aimed at providing quick-disbursing and low-conditionality loans to countries facing temporary losses of commodity export revenues. After Brazil—the first CFF borrower in June 1963—Egypt and Sudan were the next to use the new facility, which was renamed the CCFF in 1988 with the addition of a contingency element (Chapter 5). Three new facilities introduced in the 1970s were also designed in part to benefit African countries:

- In 1974, the Fund created a temporary "Oil Facility" to help oil-importing countries cope with the doubling of world oil prices that had just taken place. Much like the CFF, the Oil Facility dispensed with the usual policy conditions on Fund lending. Moreover, the Fund administered a separate subsidy account, funded by donor countries, that covered a portion of interest charges

[4]In addition to two Executive Directors from sub-Saharan Africa, a group of countries from the Middle East and North Africa has—except for two years in the mid-1970s—been represented by an Executive Director from Egypt or Libya.

Figure 14.1. Africa: Use of Fund Credit, 1950–99
(In millions of SDRs, annual data)



Source: International Financial Statistics.

for qualifying low-income countries. Of the 55 countries that borrowed from the Oil Facility during its brief life (1974–76), 21 were African.

- In 1975, the Extended Fund Facility (EFF) was established with the aim of enabling the Fund to support longer-term adjustment programs with loans that could be repaid over a longer period (10 years instead of 5). Starting with Kenya in July 1975, nine African countries availed themselves of the EFF through 1982.
- Most important for both the late-1970s surge and the longer-term growth of IMF lending to Africa, the Trust Fund was established in 1976 as an Administered Account for lending to low-income countries on concessional terms. Funded with the profits from sales of a portion of the Fund's stock of gold, the Trust Fund lent to 35 African countries (out of 55 total borrowers) through 1981, at which time its resources were fully exhausted.

Third, throughout the late 1970s, the governments of most of the large industrial countries—guided by such leaders as Jimmy Carter (United States), Valerie Giscard d'Estaing (France), Helmut Schmidt (Germany), and James Callaghan (United Kingdom)—were sympathetic to the needs of Africa and were willing to provide financing. Because analysts at the time thought most African countries were facing temporary liquidity problems from the oil shocks and other world developments, the IMF was seen as a natural instrument for this purpose. Inside the Fund, the Managing

Directors—H. Johannes Witteveen until 1978 and then Jacques de Larosière—shared this vision and made extensive efforts to broaden and deepen the Fund's role.

The surge, it must be said, did not succeed. The adverse external conditions of the 1970s did not go away, and "temporary" financing needs became permanent. Serious shortcomings in governance and institutional development in Africa, largely overlooked in the 1970s, proved to be close to intractable. Structural rigidities and market weaknesses prevented many countries from correcting their external imbalances, and prolonged liquidity shortages could not be reversed. The lending surge tapered off after 1982, when it became widely accepted that the combination of large and widespread lending and low policy conditionality had been a mistake. The consequences—long-term dependence on Fund lending and official development aid by countries throughout the continent, increasing involvement of the Fund with structural as well as macroeconomic policies, and payments arrears by countries unable to service their debts—dogged the continent and the international community for many years afterward.

IMF credit outstanding to African countries hit an all-time peak at the end of 1985, at $9 billion (SDR 8.2 billion), owed by 38 countries. Lending continued unabated, and nearly half of the countries in Africa were prolonged users of Fund resources for at least part of the 1990s. On average, however, the later loans were smaller. For the decade as a whole, the extension of credit to Africa averaged just 9 percent of total Fund lending.[5]

One reason the volume declined was the Fund's concern that many African countries were accumulating dangerously high levels of debt. The Fund's role gradually began to shift from that of primary provider of loans to one of policy advisor and certifier of the quality of countries' policy regimes and economic conditions. IMF lending generally covered a small portion of each country's financial needs, with donor countries and multilateral development agencies (mainly the World Bank and the African Development Bank) expected to cover most of the balance.

A second, and related, reason for the decline was that the Fund gradually shifted its lending to Africa out of its general resources and into special accounts—the Structural Adjustment Facility (SAF) from 1986 and the Enhanced SAF (ESAF) from 1987—whose funds could be lent at subsidized interest rates. That shift made the loans much more affordable, but the size of these donor-funded facilities was severely limited. In 1990, the combined resources for SAF and ESAF loans totaled just $4.7 billion, of which $2.6 billion was already lent to 33 low-income countries. Repayments of those loans would not begin for several more years. In the meantime, the remaining

[5]As shown in Figure 14.1, an exceptional spike occurred in 1995, when the Fund lent nearly SDR 2.3 billion ($3.5 billion) to African countries. Close to two-thirds of that total was to Zambia, following the settlement of its arrears to the Fund; see Chapter 16.

$2.1 billion would have to be spread thinly among the remaining eligible countries, many of which were among the neediest in Africa.[6]

A third reason for the lower volume was that relations between the IMF and many African countries became strained for a time. Tensions arose because of resentment over the Fund's emphasis on "structural adjustment" as the basis for its lending arrangements with low-income countries and with the increased use of detailed structural policy conditions in Fund-supported programs. The Fund's concern about corruption and other structural impediments to growth also delayed agreements in some cases.

Despite the difficulties, as the 1990s began, Africa was no longer of minor importance to the IMF. Nearly half of the countries with outstanding loans from the Fund were in Africa, and many of those had multiyear borrowing arrangements subject to extensive conditions on a wide range of economic policies. Several were in arrears, and many had little hope of repaying their loans without continuing assistance from the Fund and other agencies. By the end of the decade, glimmers of hope and pockets of progress across the continent were beginning to brighten prospects for economic growth. As middle-income developing countries began to mature into emerging markets, the challenge of helping lower-income African countries to achieve a comparable level of progress became more central to the Fund's work and to its focus.

The rest of this chapter explains the efforts the Fund made to improve economic stability and growth throughout Africa in the 1990s, assesses why the task initially proved to be so difficult, and reviews the achievements that materialized as the decade progressed. By the end of the 1990s, as the quotation from the Managing Director at the head of this chapter suggests, this assistance to Africa was becoming a major part of the future of the Fund's role.

A Growth Strategy for Africa?

The 1990s were not a great decade for Africa, but conditions improved distinctly in the second half. Although overall world economic growth averaged about 3.25 percent annually in both the 1980s and the 1990s, output growth in Africa fell to 1.9 percent from 2.3 percent. The contrast was even greater in per capita terms—world growth held steady at just over 2 percent while per capita incomes in Africa *declined* at a 1.1 percent annual rate in the 1980s and by 1.6 percent a year in the 1990s. Beginning in 1995, however, per capita income growth in Africa turned positive, averaging 1.2 percent a year for the rest of the decade.[7] This turnaround

[6]All but 5 of the 33 countries that had borrowed from these facilities through the end of 1989 were in Africa, but only 9 African countries had borrowed from the ESAF. That left 26 eligible African countries with potential demands on one or both facilities at the beginning of the 1990s.

[7]For an in-depth examination, see "The Great Sub-Saharan Africa Growth Takeoff: Lessons and Prospects," Chapter II in IMF (2008).

came at a time of extensive IMF lending across the continent, a substantial shift in lending from the General Resources Account (GRA) to less expensive concessional facilities, and the first steps toward comprehensive debt relief for the poorest countries.

Nearly as many African countries borrowed from the IMF in the 1990s (41) as in the preceding decade (46).[8] Of those that borrowed, 35 used the GRA in the 1980s, but only 21 did so in the 1990s. This shift into concessional facilities led to a drop in the overall volume of lending. In total, the Fund lent an average of $1.5 billion (SDR 1,283 million) a year to African countries in the 1980s, and $1.3 billion (SDR 940 million) a year in the 1990s. But because a much higher percentage of lending in the 1990s was through longer-term facilities, total Fund credit outstanding to Africa rose by close to 5 percent during the 1990s (and by more than 9 percent in U.S. dollars) despite the drop-off in average annual new lending.

This broad portrait of stagnation and debt accumulation does not show the full picture. Africa is a large continent with immense economic, political, and cultural diversity. A few countries, such as Ghana, Malawi, Tanzania, and Uganda, made significant and sustained progress throughout a good portion of the 1990s, though not without setbacks. Many of the 14 countries that use the CFA franc as their currency showed considerable improvement in economic performance after the devaluation of January 1994. The change in political regime that brought majority rule to South Africa also brought marked improvements in economic performance, although those improvements were uneven and difficult to sustain. Several other countries, including Algeria, Botswana, Kenya, Madagascar, Mozambique, Nigeria, and Tunisia, experienced at least a few years of strong policy implementation and economic progress despite adverse conditions such as repeatedly bad weather, the AIDS epidemic and other health disasters, and weak or protected markets for principal export commodities. However, civil conflict, lax internal security, and other governance problems impeded development more seriously in a number of African countries including the Democratic Republic of the Congo (known as Zaïre until mid-1997), Liberia, Rwanda, Somalia, Sudan, and Zimbabwe.

Multiparty democracy began to spread in the 1990s as more of the autocratic rulers who dominated the first generation in independent Africa left the stage. Among francophone countries, Benin, Burundi, Mali, Niger, and the Republic of Congo all elected new governments in 1991–93. Democracy (or partial democracy) was also established in Mozambique and in the newly independent Namibia in 1990; in Mauritania and Zambia in 1991; in Ghana and Kenya in 1992; in Malawi in 1993; in Algeria,

[8]The drop-off is explained primarily by four countries with arrears to the IMF—the Democratic Republic of the Congo, Liberia, Sudan, and Somalia—being ineligible to borrow throughout the 1990s. See Chapter 16 for a discussion of those cases.

Guinea-Bissau, and South Africa in 1994; and in Nigeria in 1999.[9] These transitions were not easy to undertake, and in most cases the political and economic instability that marked the early stages precluded adoption of forward-looking reform programs. This instability inevitably pushed the IMF to the sidelines until calm was restored, but lending usually resumed quickly.

What, overall, did the IMF do in the 1990s to try to improve economic conditions in Africa? Perhaps the most important charge was to take the task seriously and to devote sufficient time and resources to it. Undeniably, the influx of new European and Asian members after the collapse of the Soviet Union and the wave of emerging-market financial crises that began in 1994 sucked many of the best staff and much of the institutional energy away from simmering and entrenched problems and thus away from work on Africa. But just as undeniably, Michel Camdessus was personally committed to keeping help for Africa on the Fund's active agenda. He traveled to the continent frequently throughout the 1990s, making more than a dozen trips in all, to at least 30 different countries. In most cases, he met with the head of state as well as the country's senior finance officials, and also with civil and religious leaders and other influential people. Usually accompanied by his wife, Brigitte, he traveled to some of the poorest regions, where he was able to gauge the conditions of extreme poverty that dominated much of the continent, and where he gained a deeply personal sense of the desperate need for outside help.

Camdessus appointed two senior African officials to run the Fund's African Department: Mamoudou Touré (a former finance minister of Senegal) in 1988 and Goodall E. Gondwe (a future finance minister of Malawi) 10 years later.[10] In 1994, he appointed Alassane Ouattara, the highly respected former prime minister (and future president) of Côte d'Ivoire, to be one of his three deputies. Under Camdessus's tenure, Africa received more technical assistance from the IMF than did any other region—even more than the countries that emerged from the Soviet Union. He also undertook a major effort to increase the number of African nationals working throughout the Fund

[9]This list is not intended to be exhaustive, nor is it—nor is any such list—without controversy. In a number of countries, formal democratic systems were adopted, but opposition parties were effectively repressed.

[10]Much of the Fund's work on Africa was divided on a linguistic line, reflecting the predominance of English or French as the working language in most of the continent. The anglophone and francophone countries grouped themselves into separate constituencies on the Executive Board, and the African Department included divisions that worked primarily on the countries of one or the other of these linguistic groups. While the francophone Touré was the department head, two Deputy Directors led the work on these two groups: Gondwe on the anglophone countries and Evangelos A. Calamitsis (a Greek national, fluent in French) on the rest. Touré retired in 1994 and was succeeded by Calamitsis, who in turn was succeeded by Gondwe when he retired four years later.

and to bring a regular flow of African scholars to the Fund's Research Department for several weeks at a time.[11]

Energy, commitment, and resources alone are not sufficient to solve great problems. An effective strategy is also needed. On the most general level, the Fund's strategy for Africa differed from its approach in the rest of the world only in degree: provide temporary but medium-term financing, conditional on both macroeconomic stabilization and structural reform.

Most African countries (42 out of 53 by the end of the decade) were eligible for loans on concessional terms through the SAF and ESAF. For those countries, the Fund's lending was in support of a policy framework that (in principle) was developed by each country with assistance from the staffs of the IMF and the World Bank. In most cases (and again, in principle), the Fund's input into the policy framework was limited to macroeconomic and exchange rate policies and the fiscal and monetary aspects of structural reforms. Because the Fund's mandate and therefore its expertise were circumscribed, and because the Fund's financing was limited and temporary, the intention was that its inputs would constitute one element in a broader international strategy aimed at promoting sustainable development in each country and throughout the region.

The chief limitations of this strategy were architectural and much larger in scope than the IMF:

- First, no structure or even a design for one existed to ensure that the Fund's macroeconomic contributions were coordinated with the development aid and policy advice of other multilateral agencies or bilateral donors. Instead, the Fund and the others had to work out ad hoc cooperation tactics case by case. Because the Fund's contributions normally came first and well ahead of the others, the Fund had to assume that the additional financing and structural reforms would eventually materialize. This lack of coordination caused tensions between the Fund and the World Bank, weakened the ability of country officials to implement needed reforms, and left everyone uncertain about the availability of needed financing.
- Second, no model existed for placing countries' policy frameworks within a broad strategy to reduce poverty and promote economic and human development. The frameworks were aimed primarily at ensuring that the Fund- and World Bank–supported adjustment programs were comprehensive and internally consistent. For that reason, they were usually drafted initially in Washington and then modified as needed after discussions with the authorities.

[11]The effort to raise the African presence on the staff was acknowledged to have had only limited success. From 1989 to 1999, the number of African nationals on the IMF staff rose from 92 (5.3 percent of the total) to 144 (6.3 percent), but most of the increase was in the nonprofessional ranks. As for managerial positions, the number rose from 11 (4.7 percent) to 13 (4.0 percent); see "Staff Retention and Recruitment Experience in 1999," EBAP/00/40 (April 11, 2000). The visiting scholar program was initiated in 1994, with participants selected jointly by the IMF and the Nairobi-based African Economic Research Consortium.

All too often, the frameworks lacked domestic political ownership, and the authorities had great difficulty implementing them throughout the three-year lives of the programs.

- Third, no accepted framework existed yet to determine whether low-income countries could afford the levels of debt they were accumulating. As part of the Heavily Indebted Poor Countries (HIPC) Initiative in 1996, the Fund and the World Bank had established threshold ratios beyond which debt and debt service would be considered unsustainable. In the years that followed, it became increasingly clear that a more sophisticated analysis was required, and that it should be applied to all low-income countries, not just to those being considered for multilateral debt relief. In the meantime, many low-income countries in Africa and elsewhere faced recurring difficulties managing their external debts, even when those debts had been contracted on highly concessional terms.

In view of these systemic shortcomings, the Fund responded to each country case by case, trying to provide policy advice on as much of the structural reform agenda as possible within the constraints imposed by the need for financial discipline and macroeconomic stability. Unable to generate aid increases on its own, the Fund designed programs in low-income countries on the assumption that existing aid commitments would be realized, but no more. Unable to design or impose a comprehensive development strategy for each country, the Fund generally took most of the real (as opposed to financial) structure of the economy as a given, attempted to improve it at the margins, and hoped that agencies with more specialized expertise and mandates would gradually help fill in the rest.

By the end of the 1990s, the systemic architecture began to overcome these limitations. Replacing the ESAF with the Poverty Reduction and Growth Facility (PRGF) also meant scrapping the Washington-based policy framework methodology and replacing it with a more country-based process aimed specifically at reducing poverty and achieving and sustaining good economic growth. This new "poverty reduction strategy" was designed to be more homegrown in each country, based on extensive public discussion and participation, and thus more likely to be implemented. The summit-level adoption of the Millennium Development Goals by the United Nations in 2000, reinforced in 2002 by the implementation strategy known as the Monterrey Consensus, provided a clear road map for each agent's role (including the Fund's) and for coordination among the major players. In 2004, the IMF adopted an analytical framework for assessing debt sustainability in low-income countries. In the period covered here, however, these improvements were still being devised.

The effectiveness of the 1990s-era strategy was also limited by the difficulty of applying the Fund's general macroeconomic policy model to African economies. In particular, even though many of those countries had seriously overvalued real effective exchange rates, whether devaluation would improve economic performance in all such cases was far from clear. Except in cases of extreme overvaluation, currency devaluation was unlikely to generate much of a supply response on the production of primary commodities for export. Moreover, if most imports were of inputs to production rather than consumer goods, driving up the costs of those imports through devaluation would have perverse effects on output. Worst of all, in small landlocked countries such as Malawi or Rwanda, where a large portion of the federal budget went into fuel and other transportation costs, devaluation could even aggravate the fiscal deficit. None of these difficulties justified the continuation of overvalued exchange rates, but for many countries they made the correction of the problem markedly painful.

Of the 42 African countries eligible for ESAF loans, all but 9 borrowed from the Fund at least once during the 1990s. Four of the exceptions were ineligible to borrow throughout the decade, owing to prolonged arrears to the Fund dating from the 1980s. Those countries—the Democratic Republic of the Congo, Liberia, Somalia, and Sudan—are discussed in Chapter 16. The other five nonborrowers reflected a variety of circumstances.

The most important of these nonborrowers was Nigeria, the second largest economy (after South Africa) in sub-Saharan Africa. Nigeria joined the IMF in March 1960, shortly after gaining independence from Britain. A major oil exporter with good access to international capital markets, Nigeria was a Fund creditor for most of the period from the first oil shock in 1973 to 1982. Falling oil prices, rising debt, deteriorating economic management, and political instability then combined to throw Nigeria into a debt crisis. It became one of only two African nations in the "Baker 15" countries with unmanageable debts to foreign private creditors.[12]

In June 1986, the Nigerian government adopted a "comprehensive and radical" program of structural adjustment.[13] Within a few months, that shift led to approval of what could have been Nigeria's first-ever use of Fund resources, a 12-month stand-by arrangement for $813 million (SDR 650 million, or just over 75 percent of quota). That approval unlocked debt-restructuring agreements with Paris Club official creditors and London Club bank creditors.[14] In requesting the arrangement, however, the authorities signaled their intention not to draw on it, and they did not. Two subsequent stand-by arrangements, approved in February 1989 and January 1991, were similarly and successfully treated as precautionary.

The Fund declared Nigeria eligible for ESAF borrowing in April 1992. For the next several years, that prospect was clouded by severe governance problems after the military government voided the democratic presidential elections of 1993. The Fund continued to monitor the economy through regular Article IV consultations, but discussions of financial support only resumed following the election of Olusegun Obasanjo

[12]Côte d'Ivoire was the other. The Baker 15 was a list of 15 countries singled out for special attention when U.S. Secretary of the Treasury James A. Baker III announced his plan for resolving the international debt crisis in 1985; see Boughton (2001), pp. 417–29.

[13]"Nigeria—Staff Report for the 1987 Article IV Consultation", SM/87/280 (November 25, 1987), p. 3.

[14]Biersteker (1993) reviews the evolution of Nigeria's debt crisis.

as president in February 1999. Within weeks, Camdessus went to Abuja to meet with Obasanjo (whom he already knew well) and to offer the Fund's help in pulling Nigeria out of the morass. On his return, he reported to the Executive Board that Nigeria was "truly at quite a juncture in history," but also that the new president faced incredibly daunting circumstances. On top of the long-standing problems—three decades of falling incomes, driven down by pervasive corruption—the market for Nigeria's oil exports was seriously depressed. Nonetheless, agreement had already been reached on a staff-monitored program, and the Managing Director put on a good display of his characteristic optimism. Nigeria, he noted, faced "tremendous hardship" but also a "window of opportunity, possibly the first true one for democracy and development for many years."[15] Indeed, from that point on, Nigeria began to stabilize the economy and restore growth. The Fund helped with a fourth precautionary stand-by arrangement in August 2000 and continued to provide both advice and its seal of approval in the years that followed.

On the other side of the equator, 1,200 miles south of Nigeria, Angola was mired in civil war throughout most of the decade and was able to open serious discussions with the IMF staff only in 1998. Understandings were reached on a staff-monitored program in May 2000, after which Angola began to achieve strong economic performance, and its growing oil exports enabled the government to forgo borrowing from the Fund.

The tiny island country of Cape Verde suffered from a lack of natural resources and an undiversified economy, but it obtained enough assistance from donor countries to manage its debts while generating moderate economic growth in the 1990s. The Fund provided substantial technical advice, and it approved two stand-by arrangements for Cape Verde, in 1998 and 1999. The government treated both arrangements as precautionary, to serve mainly as a basis for donor support. Beginning in 2002, the Fund lent to Cape Verde through the PRGF in support of the government's poverty reduction strategy.

São Tomé and Príncipe, an even smaller island country, also relied heavily on donor support. It took out one small SAF loan in 1989, which it repaid on schedule in 1994–99. Weak economic policies led to stagnation through much of the decade, but the government set out to strengthen policies in 1998. The Fund agreed to a staff-monitored program the following year, and PRGF lending began in 2000.

Eritrea became independent from Ethiopia in May 1993, joined the IMF in July 1994, and was declared eligible for the ESAF in January 1995. Recurring conflicts with neighboring countries and weak macroeconomic and structural policies undermined donor support and impeded progress toward agreement on conditions for IMF lending.

Not all of Africa suffered the ills of chronic underdevelopment. In the 1990s, 11 African countries achieved sufficient economic development to make them ineligible for concessional loans. The Fund's strategy for relations with these countries was

[15]Report at EBM/99/31 (March 24, 1999), pp. 5–6.

basically the same as for other developing countries, although it varied considerably depending on the country's unique circumstances. Botswana and Libya had taken good advantage of the income from diamonds and oil, respectively, and were creditors of the Fund. Neither had ever borrowed from the IMF. Four others—Mauritius, Namibia, Seychelles, and Swaziland—did not borrow in the 1990s. For those six countries, the principal interaction with the Fund was through the annual Article IV consultation. The remaining five middle-income African countries—Algeria, Gabon, Morocco, South Africa, and Tunisia—borrowed occasionally, and all but South Africa had at least one upper-tranche arrangement.

Large-Scale Lending

More than half of the IMF's gross lending to Africa in the 1990s ($7.3 billion out of a total of $13.2 billion) went to four countries (out of 38 borrowers): Algeria, Zambia, South Africa, and Côte d'Ivoire. Their circumstances varied, reflecting the range of experiences across Africa in the 1990s. Algeria was a mineral-rich country in need of structural reform. Zambia, a commodities exporter, faced worsening market conditions and an unsustainable debt burden. South Africa was a more industrial economy making an extraordinary transition to democracy. And Côte d'Ivoire was the dominant member of a monetary union undertaking a major devaluation of its currency. Three of these four cases are reviewed here. Zambia—which drew heavily on the Fund after settling its overdue obligations in 1995—is discussed along with other arrears cases in Chapter 16.

Algeria

Algeria—the second largest country in Africa and the geographic heart of the Maghreb—was the largest African borrower from the IMF in the 1990s, drawing nearly $3.5 billion (SDR 2,452 million) on the Fund's general (nonconcessional) resources. This record was especially remarkable because for most of its independent history, this oil-exporting country had little need for external financial assistance.

Algeria became independent from France in 1962 and joined the Fund in 1963, but it did not borrow from the Fund until 1989. For much of that time, with substantial revenues from exporting natural gas and petroleum, the government invested heavily in state-owned domestic industrialization projects without excessive recourse to foreign capital. The collapse of world oil prices in the mid-1980s exposed the inefficiencies in Algeria's socialist development model, left the real exchange rate at an overvalued level, and added to the burden of external debt. These circumstances forced the authorities to focus on macroeconomic stabilization and the need for a more market-oriented strategy.[16] In June 1989, the Fund approved a combination stand-by arrangement and CCFF drawing (for export shortfalls and excess cereal imports), and the authorities drew the entire approved amount up front.

The 1989 and 1991 stand-by arrangements aimed primarily to support Algeria's effort to stabilize the economy while carrying out a limited structural reform agenda. That effort mostly failed, owing in part to the absence of a comprehensive policy framework. Notably, the large exchange rate depreciation that seemed necessary to make Algeria's export industries competitive ended up squeezing profits because those industries depended heavily on imported inputs. In addition, Algeria was saddled with expensive external debt to both official and private creditors, with debt-service payments equivalent to more than 80 percent of export revenues. At the same time, violent political conflicts between aspirant Islamic political parties and the single-party socialist government were undermining the social order. In 1994, the government was reorganized. It began a series of partial liberalizing steps that led to secularist multiparty elections in 1995 and then to the adoption of a new constitution.

Substantial IMF support for structural reforms also began in 1994. In February, a few weeks after a retired army general, Liamine Zéroual, was appointed president of the country, Camdessus decided to detour to Algiers to meet with Zéroual on his way to a Group of Seven (G7) summit meeting in Frankfurt. Afterward, Camdessus promised that the Fund would not "spare any effort in trying to help Algeria at such a difficult juncture."[17] At the same time, a team of Algerian officials was in Washington negotiating terms for a reform program to be supported by an IMF stand-by arrangement. The major elements of the government's program would be reduction in bureaucratic control and the subsidizing of economic activity, liberalization of prices and exchange markets, a sharp reduction in the fiscal deficit to be achieved primarily by creating new opportunities for private sector employment, and tightening of credit policies.[18] Agreement on terms was reached quickly, and in May the Executive Board approved a little more than $1 billion in loans: a 12-month stand-by arrangement for $647 million, supplemented by an immediately available $388 million CCFF drawing (SDR 457.2 million and SDR 274.3 million, respectively). That approval unlocked debt-relief agreements with the Paris Club and the London Club.

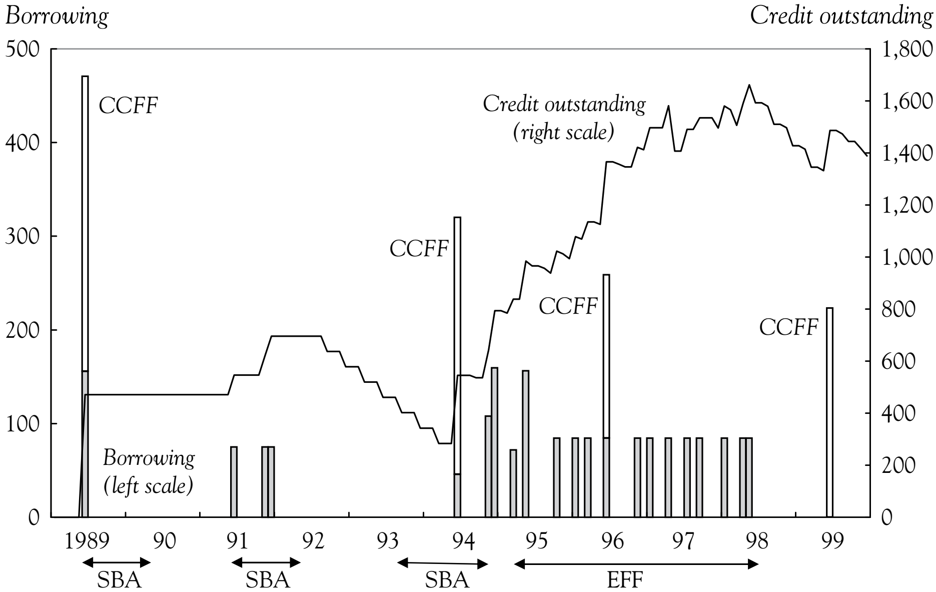
For the rest of the decade, the Fund provided regular financial assistance to Algeria in support of an ongoing economic stabilization and reform program. Despite the persistence of terrorist acts and guerrilla warfare, the government attained a strong economic progress record. Following the successful completion of the 1994–95 stand-by arrangement, the Fund approved an EFF arrangement in May 1996, which was fully drawn, and

[16]For an overview of Algeria's political and economic history and its relations with the IMF through 1997, see Nashashibi and others (1998).

[17]Report to the Executive Board at EBM/94/18 (March 4, 1994), p. 4.

[18]Report by the Managing Director to the Executive Board, minutes of EBM/94/18 (March 4, 1994), pp. 3–4.

Figure 14.2. Algeria: Use of Fund Credit, 1989–99
(In millions of SDRs, monthly data)



Source: International Financial Statistics.
Note: CCFF = Contingency and Compensatory Financing Facility; EFF = Extended Fund Facility; SBA = Stand-by arrangement.

a CCFF loan in June 1999 to compensate for low world prices of Algeria's predominant exports, oil and gas. Algeria's indebtedness to the Fund peaked in May 1998 (Figure 14.2) at $2.2 billion (SDR 1.66 billion, or 182 percent of quota). The government repaid all of these loans either on time or early, with a final repayment in February 2006.

South Africa

MANY PEOPLE SEEM TO BELIEVE THAT A POPULARLY ELECTED BLACK GOVERNMENT CAN BE ESTABlished peacefully and would be able to maintain political freedoms, civil liberties and some kind of economic rights for its citizens, including the minority whites. . . . [That] event would perhaps be the greatest political accomplishment in human history. To put it another way, it is not going to happen.

Robert J. Barro
Wall Street Journal
December 14, 1993

South Africa, one of the four African countries that participated in the Bretton Woods conference, joined the IMF as an original member in 1945. As a major gold producer and exporter, the country had little need for official financial assistance, and for a few years in the late 1960s it was a creditor country in the IMF. Its economic fortunes worsened considerably in the mid-1970s as the social and economic implications of apartheid surfaced and led to domestic upheavals and international isolation.[19] The IMF provided stand-by arrangements and CFF drawings in 1976–77 and again in 1982–83, after which the spread of international sanctions cut off further support until the apartheid system was renounced.[20]

In 1990, the minority government led by F.W. de Klerk announced that the long-banned African National Congress (ANC) would be legalized, along with other parties that had been outlawed because of their opposition to apartheid. That step set off an irreversible chain of events that led to the election of a Government of National Unity in 1994. Throughout this transition, the ANC, many of whose leaders—including the future president, Nelson Mandela—had been languishing in South Africa's prisons when the Fund last lent to the country a decade earlier, regarded the IMF with suspicion. Nonetheless, they did not object in 1991 when de Klerk invited Camdessus to discuss steps toward reestablishing normal relations. That diplomatic opening led to a resumption of lending two years later.

No one expected the transition to democracy to be smooth. Whether it could be completed without first passing through a period of massive bloodshed or a descent into total economic, political, and social chaos remained to be seen. Financially, this fear was manifested by capital flight and by the virtual absence of foreign inflows. Officials in the treasury and the central bank desperately wanted to draw on the IMF to bolster their foreign exchange reserves and thus allow foreign trade to continue normally, but they faced two severe obstacles. First, domestic policymaking in the South African government was nearly paralyzed because any major decision required the approval of both the de Klerk government and the transitional committee that comprised representatives of all of the newly legalized political parties.[21] Second, the major creditor countries were reluctant to allow a resumption of lending until the

[19]From 1948 to 1974, South Africa was a member of the Executive Board constituency headed by Australia. When the Australian government informed the South African authorities that they were no longer welcome in that group, South Africa ceased to participate in elections of Executive Directors. For the next two decades, the government was represented by an official who maintained an office near the IMF in Washington and who received documents and was invited to attend relevant Board meetings. Article IV consultations continued annually, the Fund continued to provide technical assistance and training, and it remained willing to lend until the mid-1980s; see Boughton (2001), pp. 590–95. South Africa repaid the 1982–83 borrowings by 1987 and had no further outstanding obligations until 1993.

[20]Formally, the sanctions imposed by many countries did not constitute a barrier to IMF lending, but they were symptomatic of broad antipathy that led the Managing Director to conclude that the Executive Board would not approve a borrowing request from South Africa. Staff Article IV missions repeatedly conveyed that message to the authorities, who accepted that such a request would be futile.

[21]The ANC and de Klerk's National Party were the dominant political forces, but several other parties were vying for influence and were participating at least intermittently in the transition negotiations. Beginning with the 1991 IMF/World Bank Annual Meetings in Bangkok, representatives of the ANC were invited to attend.

outcome of the transition was more clearly in focus. In practice, the critical steps were the establishment of a multiparty framework known as the Transitional Executive Council (TEC) and a request by the ANC leadership for the international sanctions to be lifted. Those steps were not taken until December 1993. In the meantime, entering into a stand-by arrangement with the IMF, with all of the attendant policy conditions, would have been unthinkable for the authorities as well as for the IMF.

Despite the authorities' aversion to conditional borrowing, they recognized that they needed foreign exchange. The economy was in a prolonged and deepening recession, most foreign investors were put off by the political uncertainty and were unwilling to gamble on a successful turnaround, and the central bank's reserves were dangerously low and falling. Major creditor countries recognized the global political importance of aiding the transition to democracy, but they also knew they had to have some assurance that committing money to the country would help and would not be wasted. The IMF, with its technical expertise and its regular dialogue with the authorities, was the natural conduit for determining when and how the international community could safely resume lending to South Africa.

IMF management was eager to develop a strong working relationship with the ANC and other likely participants in a democratic government, and the Fund was prepared to lend if a way around the obstacles could be found. As it happened, in 1992 and 1993 agricultural production in southern Africa was suffering from a severe drought. In addition, South Africa's export income was being hit by a drop in the world price of gold. The Fund staff agreed that these shocks appeared to be temporary and that the country thus qualified for a quick-disbursing, low-conditionality compensatory loan through the CCFF. More important, the CCFF option provided a way to lend to South Africa while minimizing the political risks for both sides. A staff team, led by Leslie Lipschitz (Assistant Director, African Department), went to Pretoria in April 1993 to begin discussions, but the team found that the ANC was still opposed to any borrowing until after the election of a democratic government.[22]

A date for elections had not yet been set, but it was obvious they could not be held until sometime in 1994. Under the rules governing access to the CCFF, a loan would have to be approved within six months of the end of the "temporary shortfall" in export revenues, which in this case was calculated to be in the middle of 1993.[23]

[22]Memorandum from Lipschitz to the Acting Managing Director, "South Africa—Staff Visit," May 4, 1993; IMF archives, Accession No. 1997-0067-0006, OMD-AD, B9960, "South Africa 1993." This staff visit was the first one to South Africa under the auspices of the African Department. Previously, relations with South Africa had been handled by the European Department.

[23]Because a large part of the shortfall had occurred in 1992, the staff calculated that any delay resulting in that period being excluded would sharply reduce the amount the Fund could lend; see memorandum from Touré to the Managing Director, "South Africa: Briefing Memorandum for Staff Visit," August 30, 1993; IMF archives, Accession No. 1997-0067-0006, OMD-AD, B9960, "South Africa 1993."

Nelson Mandela greets Michel Camdessus in Washington, September 1993.
(Newscom/AFP photo by Paul J. Roberts)

With reserves continuing to be drawn down by the outflow of capital, either the ANC would have to soften its opposition, or defaults would occur imminently.

The first breakthrough came at the beginning of July 1993, when a long and rancorous negotiating process among the political parties reached a successful conclusion. Elections were then scheduled to be held the following April, which provided justification for the ANC to relax its opposition to a CCFF loan. Lipschitz and his staff team returned to Pretoria in early September to resume discussions.

Agreement on terms, however, was not to be reached easily. Access to the CCFF did not normally depend on specific policy conditions. The formal requirement was merely that the country be cooperating with the Fund to find a solution to its balance of payments difficulties, and the Executive Board had explicitly rejected proposals to define that standard more rigidly (Boughton, 2001, p. 729). In this instance, the staff and management agreed that the substantial uncertainty about the future course of economic policies in South Africa called for a tight interpretation. Accordingly, the Fund required the authorities to agree to a memorandum of understanding on policies to be followed in 1994. Moreover, the cover letter—in effect, a Letter of Intent—would have to be signed both by the finance minister on behalf of the government and by representatives of the TEC. The latter body did not yet exist because parliament had not yet passed the enabling legislation, but everyone involved hoped that it would be formed in the fall of 1993, in time for the Executive Board to consider the loan request before the end of the year.

A second breakthrough came shortly after the September mission, when Mandela passed through Washington on his way to address the UN General Assembly in New York. At the IMF, he had breakfast with Camdessus, during which they agreed that the pending loan from the Fund should be quickly approved. Afterward, Camdessus issued a press release stating that he was "full of admiration for the courageous steps that are being taken by South African statesmen to build a new South Africa."[24] After further encouraging talks with the authorities in the margins of the Annual Meetings in Washington, Lipschitz again went to South Africa to conclude the negotiations and finish drafting the memorandum of understanding on policies.[25] The day after he arrived, the UN lifted its sanctions, removing the penultimate barrier to a resumption of lending.

The final breakthrough came only in early December, when the TEC at last became operational. When the group held its initial meeting on December 7, 1993, its first agenda item was to approve the statement of policies contained in the memorandum of understanding that had been drafted during the October mission. That cleared the way for all of the leading participants to sign the cover letter: the finance minister, Derek Keys, on behalf of the transitional government; Dawie de Villiers, cochair of the TEC for de Klerk's National Party; and Pravin Gordhan, cochair of the TEC for the Natal Indian Congress.[26]

With all of these hurdles overcome, the Executive Board met on December 22 to approve a loan of $850 million (SDR 614.4 million) to South Africa. Although only 45 percent of South Africa's quota, it would be one of the largest loans of the decade to any African country. The Board enthusiastically and unanimously approved the request, and the discussion focused principally on the challenges that South Africa would face once a new government was in place.

Demands by a long-repressed majority population to share in the country's wealth would be strong and well justified, but any attempt by the government to satisfy those demands within a few years was likely to ruin the economy. The October staff mission had calculated that "to equalize government spending on social services for all race groups at the level enjoyed by whites would require a budget increase of 11 percent of

[24]"Statement by Michel Camdessus: 'The IMF is Helping South Africa Through the Transition'," NB/93/13 (September 24, 1993).

[25]Memorandum from Lipschitz to the Managing Director, "South Africa: Discussions on the CCFF and the Article IV Consultation," October 21, 1993; IMF archives, Accession No. 1997-0067-0006, OMD-AD, B9960, "South Africa 1993."

[26]"South Africa—Staff Report for the 1993 Article IV Consultation and Request for Purchase Under the Compensatory and Contingency Financing Facility," EBS/93/192, Suppl. 1 (December 14, 1993).

GDP. Clearly, this would be impossible to finance."[27] The Fund's Executive Board concurred and concluded that fiscal policy was constrained by the already large deficit, while monetary policy was constrained by the weakening exchange rate and the need to overcome investors' doubts about macroeconomic stability.[28] Although not an atypical IMF message to a borrowing country, it was a strikingly firm piece of advice to a country so greatly in need of economic growth and social and structural reform.

On the Board, the chief dissenter from this taut conclusion was Douglas E. Smee (Canada), who argued that South Africa's "social backlogs . . . cannot be ignored" and that the best choice in these difficult circumstances was "to ease monetary policy and . . . let the exchange rate depreciate, in return for frozen prices and wages for some agreed period." Karin Lissakers (United States) partially supported that argument, suggesting the authorities might have "more room in which to maintain a tight fiscal policy if there was some easing on the exchange rate and interest rates." Jarle Bergo (Norway) and Ewen L. Waterman (Australia) also expressed some support, but Godert A. Posthumus (Netherlands) neatly summarized the majority view when he asserted that "competitive exchange rate policy experiments, as advocated by Mr. Smee, are dangerous and, in the end, unproductive."[29]

Financial markets had difficulty believing that a South African government would embrace the IMF's policy advice. History did not provide much basis for hope that a democratically elected government in Africa would take a long-term view and give precedence to financial stability and policy sustainability. A social explosion would surely result if it tried.

In these difficult circumstances, a Government of National Unity, with the ANC as the leading party, was elected in April 1994, and Nelson Mandela was elected president. By then Camdessus was even more convinced that South Africa was going to need large-scale financial assistance. When the new government showed no inclination to seek the Fund's help, he sent Alassane Ouattara (Deputy Managing Director) to Cape Town in February 1995 to discuss the matter with Mandela and other officials, but Ouattara found that much of the leadership was still hostile to the IMF. A visit by First Deputy Managing Director Stanley Fischer in December was no more productive. Bitter memories persisted of the Fund's past support to the minority government, and many political leaders believed that IMF lending would come with unacceptable restraints on economic policies and would threaten the country's sovereignty.[30]

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[27]Memorandum from Lipschitz to the Managing Director, "South Africa: Discussions on the CCFF and the Article IV Consultation," October 21, 1993; IMF archives, Accession No. 1997-0067-0006, OMD-AD, B9960, "South Africa 1993."

[28]Minutes of EBM/93/177 (December 22, 1993), Summing Up by the Acting Chairman, pp. 5–7.

[29]Minutes of EBM/93/176 (December 22, 1993), pp. 9–11 (Smee), 36–37 (Lissakers), and 50–53 (Bergo, Waterman, and Posthumus).

[30]Report by Ouattara to the Executive Board at EBM/95/18 (February 22, 1995), pp. 3–4; and report by Fischer at EBM/95/123 (December 22, 1995), pp. 3–4.

The last real opportunity for South Africa to avail itself of the Fund's financial resources occurred in 1996. The rand came under attack in February, initially as a result of unfounded rumors that Mandela was in ill health. At the end of March, Mandela shuffled his cabinet and moved Trevor A. Manuel to the finance ministry. Manuel—like Mandela, a former prisoner of the *ancien régime*—had chaired the ANC's economic planning committee during the transition and had then served as minister of trade and industry. Like much of the ANC leadership—indeed, like most of South Africa's new economic officials—Manuel strongly believed in fiscal discipline and financial stability as the foundation for sustainable economic progress.[31] Eventually, he would be widely acknowledged as one of the outstanding finance officials in the developing world, but in 1996 his resolve had not yet been tested. When he publicly bristled at the notion that economic policy should aim to satisfy the markets, the doubts intensified.[32] From February to October, the rand depreciated by 20 percent against the U.S. dollar, and the central bank's foreign exchange reserves fell to a dangerously low level.

Camdessus made an extraordinary effort to help. In April 1996, he went to Johannesburg to attend an UNCTAD meeting. At a joint press conference with Manuel, he stated how impressed he was by the government's "fantastic achievement" of maintaining fiscal prudence while restoring economic growth. It was "an extraordinary success story," he concluded, and any speculator who bet against it was sure to lose.[33] That vote of confidence helped a bit to reduce the pressure, but the weakness of the rand and the outflow of foreign exchange continued through the summer.

In June, Manuel introduced a comprehensive growth-oriented stabilization plan, under the heading Growth, Employment, and Redistribution (GEAR) strategy. The strategy called for tightening fiscal policy, stabilizing the real exchange rate, and liberalizing the economy to promote investment and employment opportunities. Although the plan received praise from both inside and outside South Africa, investors continued to wait for concrete evidence of progress, and the rand continued to weaken. By late summer, South Africa was in financial crisis, and the country's leadership was becoming convinced they would need help from the IMF to bolster their reserves. Either Manuel or the central bank governor, Christian L. Stals, was on the telephone with

[31]For an analysis of the political economy of South Africa in this period, see Hirsch (2005). The economic results are analyzed in Nowak and Ricci (2005).

[32]Told by a reporter in March 1996 that "the markets" wanted to know whether he was going to remove South Africa's exchange controls, Manuel replied, "What is this market? What is this amorphous entity which sent you here, huh? Who sent you here? On whose behalf do you speak about these issues?" For at least a decade, press coverage of Manuel's performance as finance minister frequently referred to a supposed "amorphous markets" speech that he was thought to have made. See Pippa Green, "The Outsider Who Has Measured Vision Against Reality," in the online edition of *Business Report* (February 16, 2006); accessed at http://www.busrep.co.za/index.php?fArticleId=3115326.

[33]See Reuters News, "IMF Backs South Africa Government, Upbeat on Economy Outlook" (April 27, 1996); accessed at http://global.factiva.com.

Fischer at least once every few days, quietly seeking advice on regaining investors' confidence.

As South Africa's finances weakened, the IMF staff began preparing a proposal for an adjustment program that could be supported by a stand-by arrangement if the authorities decided to request one. The African Department was satisfied that the GEAR strategy could serve as the basis for a Fund-supported program, but they wanted to push the authorities toward further monetary tightening and deeper structural reforms as a condition for the Fund's support. Fischer, who had told Manuel that the GEAR was an "excellent" plan and who understood well the political constraints Manuel was facing, squashed that idea and insisted the Fund should offer to support the government's own program, beefing it up only by making it more specific. "We have in some way to take account of their political problems in accepting a Fund program," he told the staff.[34]

In October 1996, Camdessus returned to Johannesburg, where he again had breakfast with Mandela, this time at the president's home. By this time, official reserves were down to the equivalent of just a few weeks of imports, and pressures on the government to increase social spending were rising. In conversation with the president, Camdessus suggested the Fund could provide a multibillion dollar extended arrangement, conditional on implementation of economic policies that were essentially the same as the government was already putting in place. Mandela agreed in principle, subject to the approval of his government.

Mandela and Camdessus went outside into the sunshine to meet with the press in Mandela's garden. The president praised the IMF, welcomed its support, and stressed the importance to the country of carrying out a bold set of economic reforms—not because the IMF insisted on it, but for their own sake. "If we want IMF assistance, the IMF must be convinced that the way that we are handling our monetary policy is consistent with the guidelines it has set. I am personally convinced that the guidelines . . . are very good—without any country allowing the IMF to undermine its sovereignty . . . What is important is that we want financial assistance from the IMF."[35]

Mandela's acceptance of the Managing Director's offer turned out to be premature. While the press conference was taking place, government and ANC officials were meeting to put the finishing touches on an official announcement, which was

[34]The pro forma program was set out in a memorandum for files by Peter Doyle (Economist, African Department), August 28, 1996. The quotation from Fischer is from his handwritten notation on the covering note, dated September 3 and addressed to Calamitsis; IMF archives, DMD-AD, Accession 1999-0275-0008.

[35]Statement by Mandela at press conference of October 18, 1996. For the complete transcript, see memorandum from S.J. Anjaria to the Managing Director, "Press Conference of President Mandela and the Managing Director," October 29, 1996; IMF archives, DMD-AD, Accession 1999-0275-0008. The quoted remarks were published in "Mandela and Camdessus Discuss South African Prospects," *IMF Survey*, Vol. 25 (November 11, 1996), p. 376.

scheduled to be made in the early afternoon. By the end of the day, however, no announcement was made, nor would one be. That evening, Manuel went to see Camdessus and informed him that the ANC had vetoed the proposal. Although program discussions between Fund management and senior officials would continue at a general level for a few more months, and although the country's social and financial needs would continue for years, South Africa would forgo all further borrowing from the IMF.

Côte d'Ivoire and the CFA Franc Zone

The fourth largest African borrower in the 1990s was Côte d'Ivoire, more familiarly known in English-speaking countries as Ivory Coast. As recounted in Boughton (2001, pp. 578–85), economic conditions in Côte d'Ivoire deteriorated seriously in the late 1980s and early 1990s. A sustained decline in world prices for the country's two major exports—coffee and cocoa—lowered Côte d'Ivoire's terms of trade by 45 percent from 1985 to 1993. Currency devaluation as a response was ruled out as a practical matter by Côte d'Ivoire's participation in the monetary union known as the CFA franc zone. Instead, the government tried a variety of policy adjustments, including a freeze on public sector wages, cuts in prices paid to farmers, and tax increases. The IMF and other official creditors tried to help by providing new loans, but none of these measures was sufficient to prevent the fiscal and external deficits from rising beyond control. By the end of 1990, the economy was in shambles. The president, Félix Houphouët-Boigny, put a former Director of the IMF's African Department, Alassane Ouattara, in charge of economic recovery and named him to the newly created post of prime minister. Although the IMF management team had the highest respect and admiration for Ouattara, the Fund suspended its lending to Côte d'Ivoire until it could see concrete evidence that the government was capable of stabilizing the economy.

The constraint on exchange rate adjustment in Côte d'Ivoire had a long history, a legacy of French colonial role. In the 1930s, the French government began stabilizing the currencies being used in many of its overseas colonies by pegging them to the French franc. At the conclusion of the Second World War, the currencies of most of France's African colonies were consolidated into a single unit called the "franc des Colonies Françaises d'Afrique" or CFA franc. An agency of the French government issued the currency, and the French treasury guaranteed convertibility of the CFA franc into the French franc by establishing "operations accounts" for each colonial central bank. Those central banks pooled most of their foreign exchange reserves through these operations accounts. In return, they enjoyed overdraft privileges, subject to rules limiting the amount of credit they could extend.

In October 1948, the rate of exchange was fixed at one CFA franc to two French francs. The number of participating countries fluctuated a bit over the years, and the nominal ratio changed from 1:2 to 50:1 with the French currency reform of 1960, but the astounding and unique fact was that for more than 40 years, through many political and economic upheavals, the rate of exchange was unaltered between the CFA and French francs.[36]

This longevity did not result from the coherence of the zone as an optimal currency area. The inadequate transportation infrastructure across this vast area and the heavy reliance on exporting primary commodities to industrial countries meant that intraregional trade was limited. Instead, the benefits of the zone derived from the links to France and the stability that came from having a strong currency. Trade with France and other European countries became the chief engine for economic growth throughout the region, and the French government provided a large and increasing amount of financial support through the operations accounts. Moreover, the link to the French franc forced a measure of fiscal discipline. That link also provided an anchor for price expectations, producing far more stable consumer prices than those in neighboring African countries. After the terms of trade for most commodity-exporting African countries weakened in the late 1980s, the downturn in growth was similar inside and outside the franc zone.[37]

Preparing for Devaluation

Despite these advantages, the overvaluation of the CFA franc that followed the terms-of-trade shock put unbearable pressure on the exchange rate, not least because the French authorities became concerned about the cost of maintaining it. By the early 1990s, the IMF also recognized the need for a devaluation. Together, French treasury officials and the Fund's management team worked quietly for two years to persuade the African leaders that they would have to devalue and to prepare for the consequences. That diplomatic effort was both reinforced and complicated by pressure from officials in other industrial countries and in the World Bank, many of whom were convinced that the system was giving France an unfair competitive advantage in securing trade with franc-zone countries.[38]

[36]The original African participants, with their current names, were Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, Comoros, the Republic of Congo, Côte d'Ivoire, Djibouti, Gabon, Mali, Mauritania, Niger, Réunion, Senegal, and Togo. Djibouti left the zone in 1949. Mali left temporarily in 1962. Madagascar established its own currency in 1963, and Mauritania did so in 1973. Réunion, an overseas *département* of France that did not become an independent country, switched from CFA to French francs in 1975. Comoros left in 1981. After that, the trend toward the exit reversed, with the return of Mali (1984) followed by the addition of new members Equatorial Guinea (1985) and Guinea-Bissau (1997). For a more complete history, see Boughton (1993a) and references therein.

[37]These points are discussed more fully in Boughton (1993a, 1993b).

[38]Much of the World Bank staff (but not its senior management) was deeply suspicious and resentful of what they believed to be a joint effort by the French and the IMF to prevent devaluation, while the French and the IMF were equally upset by what they perceived to be World Bank meddling in a delicate diplomatic effort that lay outside the Bank's mandate. For the Bank's perspective, see Kapur, Lewis, and Webb (1997), pp. 769–82.

Concerns about the exchange rate had surfaced at the IMF as early as 1980. In that year's Article IV consultation with Senegal, the staff took the unusual position of advocating a tax on imports and subsidies on exports as an alternative to currency depreciation. That struck a nerve with a few Executive Directors, who suggested that devaluation should be put on the table, even if it meant dropping out of the currency union. The U.S. and Dutch Directors asked for "an analytical study looking not only at the costs and benefits to the members of their participation in the Union, but also at the effects on nonmembers."[39] The Managing Director, Jacques de Larosière, agreed, but it seems that he (or the staff) did not assign it a high priority. Preparation of the study (Bhatia, 1985) took five years, during which time the economic performance of the zone generally benefited from depreciation of the French franc against other major currencies. The study concluded (pp. 42–45) that the balance of payments problems of franc-zone countries resulted primarily from lax fiscal policies and weak export prices, not from the constraint on the exchange rate.

The empirical basis for this relaxed attitude was gradually undermined in the second half of the 1980s, and not only because of worsening market conditions for African exports. Reinforcing the deleterious effect of those conditions, the French authorities adopted a tougher attitude toward strengthening their own currency and avoiding further devaluations against the deutsche mark, a shift that became known as the "franc fort" policy. Consequently, when the Fund conducted its annual reviews of the economies of Côte d'Ivoire and Senegal (the two largest CFA franc countries) in 1987, discussion of the lack of exchange rate adjustment became quite pointed. The U.S. Director, Charles Dallara, insisted that the "exchange rate was a powerful instrument of adjustment, and it should not be ruled out." The staff was divided. The mission chiefs for both the Senegal and the Côte d'Ivoire discussions concluded that the case for devaluation was offset by the case for preserving price stability, while the reviewing officers from the Exchange and Trade Relations Department expressed concern that cost-cutting alone was not likely to work unless it was backed up by devaluation.[40]

In November 1990, the Executive Board held its first general discussion of the CFA franc zone, in the form of an informal seminar. The meeting was requested by David Peretz (United Kingdom), who expressed concern that the Fund was not giving enough consideration to the policy implications of adhering to a currency union when the economies of the CFA franc countries were coming under severe stress. Staff in the Research and African Departments prepared an analysis that maintained a neutral view while warning that future economic progress without a realignment might prove difficult:

> In general, the Fund has been sympathetic with the aim of the CFA franc countries to maintain exchange rate stability in the context of their regional monetary arrangements based on strong ties of solidarity. However, if the present approach of improving external

[39]Minutes of EBM/80/87 (June 9, 1980), pp. 9 and 11.

[40]See minutes of EBM/87/148 (October 26, 1987), on Senegal; and EBM/87/172 (December 15, 1987), on Côte d'Ivoire.

> competitiveness through downward adjustment of nominal costs and prices were to prove unworkable, alternative adjustment measures would have to be considered.[41]

At the seminar, both of the Directors speaking for the zone (Corentino V. Santos, Cape Verde; and Jean-Pierre Landau, France) insisted that the basic economic problem was fiscal, not monetary, and that it should be corrected over time through fiscal discipline, aided by a continuation of the existing exchange arrangements. Several others supported that view, one even going so far as to compare the 42-year persistence of the fixed CFA franc parity to that of Texas maintaining a fixed rate against New York over the same period. Other Directors challenged this view, either because they believed that cost-cutting alone was too drastic and not politically feasible, or because they were confident that a devaluation could be made to stick in real terms because of the region's strong record of maintaining price stability. Camdessus managed to sum up this remarkably frank but inconclusive discussion by noting the need for further reflection and for greater focus on regional surveillance.[42]

As pressure for devaluation continued to build, the practical problem remained that any change in exchange rate parity required the unanimous consent of all 13 participating African countries and of the French government.[43] The French finance minister (and later prime minister), Pierre Bérégovoy, was an architect of the "franc fort" policy and an opponent of devaluation as a policy tool. Camdessus was personally convinced that the CFA franc should be devalued, but he was reluctant to take a public stand on the issue, and he was unable to convince Bérégovoy privately. Nonetheless, by 1992 Camdessus believed he had convinced the French president, François Mitterrand, and on that basis he tried to generate consensus among the African leaders.[44]

In July 1992, Camdessus toured the CFA region and met with six heads of government who were known to be reluctant to devalue. He explained to them that maintaining the franc zone did not preclude a one-off devaluation. He argued that if a

[41]"A Review of the CFA Franc Arrangements," SM/90/136 (July 9, 1990), p. 40.

[42]Minutes of SEM/MTG/90/6 (November 5, 1990).

[43]The colonial structure of the system weakened gradually beginning in the 1960s, as the African countries gained independence. In the 1970s, the colonial franc was replaced by two separate currencies issued by two regional central banks. The seven member countries of the West African Monetary Union adopted the "franc de la Communauté financiére d'Afrique," issued by the Banque centrale des Etats de l'Afrique de l'Ouest (BCEAO). Six others adopted the "franc de la Coopération financière en Afrique centrale," issued by the Banque des Etats de l'Afrique centrale (BEAC). Technically, action could have been taken by either of the two central banks with the cooperation of the French government, but as a practical matter all participants agreed that any parity change would require unanimous consent. The French government participated through its membership on the boards of directors of the central banks. A fourteenth African country, the Comoros, was a former member of the CFA franc zone and was still in the wider franc zone. It pegged the Comorian franc to the French franc in sync with the CFA countries and participated in some deliberations.

[44]See Independent Evaluation Office (2007, p. 46) for an overview of the important role played by the IMF, and the critical importance of Camdessus's personal involvement.

change in parity were combined with tight macroeconomic policies, their economies could become more stable, more competitive, and ultimately more prosperous. Without a devaluation to correct the overvaluation of the currency, agricultural output, employment, and economic growth throughout the region would continue to be stifled. Some of the presidents were convinced, but others were not. Although the rural sectors might benefit, the income losses in the cities could be devastating. Whatever might be done to try to stabilize the economy afterward, a change of the magnitude that the Fund and others were advocating would be a massive shock and a huge risk for any government to undertake.

By the end of his trip, Camdessus felt he had come close to winning many of the leaders over, but he had fallen short of securing the unanimity required for any change in parity against the French franc.[45] To keep up the momentum, he convened a top-secret staff committee to oversee preparations for devaluation and to meet with reluctant officials to try to persuade them of the benefits.

In France, the official view on CFA franc devaluation shifted from opposition to neutrality by 1992 and then to strong support in 1993. The balance was finally tipped not so much by a growing concern for the plight of stagnating African economies but by a growing concern for the cost to France of preserving the status quo. Parliamentary elections in March 1993 led to the transfer of power from Bérégovoy's Socialist Party to the Gaullist coalition led by Édouard Balladur. After meeting with Camdessus, the new prime minister decreed that France would provide no further aid to the franc-zone countries unless they had IMF-supported reform programs in place.[46] Although the Fund was still supporting a few programs in the region, French officials understood well that the countries resisting devaluation would be forced either to give in or to forgo French and IMF financial aid.

From that point on, devaluation was inevitable, but much work remained before it could be judged likely to succeed. Without a comprehensive plan to stabilize macroeconomic policies, the gains could be quickly dissipated through wage and price inflation. As the Fund staff formulated the problem in working with African officials, national plans would have to be built on three main elements: preventing wages from spiraling upward, ensuring that the gains would directly benefit farmers and spread through the depressed rural sectors, and setting up or strengthening "safety nets" for the poor.

Further complicating the matter, market speculation of an impending devaluation intensified greatly after the change in the French government. In July 1993, the French franc came under heavy speculative pressure as European markets tested whether the September 1992 parity adjustments within the European Monetary System (EMS) were sufficient. On August 2, 1993, EMS finance ministers widened the intervention bands in their exchange rate mechanism to 15 percent but did not devalue the franc.

[45]Report by the Managing Director at EBM/92/100 (August 3, 1992), pp. 50–52.

[46]See "Côte d'Ivoire after Houphouët-Boigny," *Economist*, Vol. 329 (December 11, 1993), pp. 45–46. Additional details are from interviews with officials.

On the same day, in an effort to stem capital flight, the BEAC and the BCEAO permanently suspended the repurchase of CFA franc banknotes held outside the zone.[47]

As market pressures continued to mount and economic conditions in Côte d'Ivoire and other countries in the currency union continued to deteriorate, the staff and management undertook further detailed secret negotiations with several countries to try to reach agreement on the policy changes that would be needed after a devaluation for the countries to qualify for the Fund's financial support. From November 1993 through the first week of January 1994, the African Department sent staff missions for this purpose to at least seven participating countries, and it made preparations to send staff to all of the others immediately after devaluation, if it should occur. Camdessus also continued his personal diplomacy, staying in frequent contact, along with senior officials in the African Department, with the African leaders and finance officials until they all seemed to be convinced.

The right moment finally arrived in January 1994. All of the heads of government or state of the countries in the franc zone were scheduled to meet in Dakar, Senegal, in their capacity as Board members of the regional airline, Air Afrique. The leaders of the western African countries (the seven countries for which the BCEAO was the central bank) were also meeting separately to ratify a treaty establishing the West African Economic and Monetary Union as a trading bloc. These meetings would provide some cover for a secret discussion among them of the exchange rate, but as it turned out, not very much cover. As the date of the meeting approached, rumors of impending action were widely discussed in the financial press. Miraculously, no run on the currency ensued from these rumors, to the amazement of those in the Fund who had seen well-laid plans go far astray in the past.

Camdessus was invited to participate in the meeting in Dakar, and he went to great lengths to keep his presence secret. He left Washington on December 17 on a trip that took him to Turkmenistan and Kazakhstan and then to Paris where he was to meet with senior officials before taking some time off for the year-end holidays. His announced itinerary called for a return to Washington on January 4, but on January 3, a supplement was circulated in the Fund stating that the Managing Director's travel was being extended through January 10 "for further discussions with authorities of several member countries." On January 10, the return date was further extended to the evening of January 12.[48] Only those few staff and Executive Directors who needed to know were let in on the real purpose of the trip.

By the time of the summit meeting, the only real questions were whether one or two countries might continue to hold out and, if not, how large a devaluation would be

[47]On the devaluation rumors and the attendant capital flight, see Balls (1993), p. 4. On the imposition of the capital control, see "Modification of Exchange Rate Regulations in the West African Monetary Union," EBS/93/168 (October 20, 1993).

[48]"Absence of the Managing Director," EBAP/93/84 and supplements 1 (January 3, 1994) and 2 (January 10, 1994).

undertaken. The two issues were closely linked because the extent of the estimated overvaluation varied substantially across the region. From 1985 to 1993, the deterioration in the terms of trade—the primary source of the overvaluation—ranged from virtually nil in Chad and Senegal to 50 percent or more in Benin, Cameroon, the Republic of Congo, and Gabon. Taking that and other factors into account, the staff estimated the real effective overvaluation to be close to 30 percent for the region as a whole, while estimates for individual countries ranged from 11 percent (Gabon) to 52 percent (Niger).[49] All 13 countries would have to act together, but the consequences would vary. If a country devalued by too much, it risked losing control of price and wage stability; if it devalued by too little, it risked remaining uncompetitive and being forced to devalue again.

The Fund's advice was to find a number that would bring large enough benefits to all of the participating countries to convince financial markets that the new exchange rate would stick for many years to come. This had to be a one-time devaluation, not a repeating event. The inflationary consequences could be contained through policy adjustments tailored to each country. The negative real effects from those adjustments, including the effects on the poorer segments of society, could be contained through the injection of cash from the IMF, France, and other supporters, and by incorporating funding for social safety nets directly into the postdevaluation programs.

On January 11, 1994, after a long and occasionally bitter meeting, the 13 national leaders unanimously agreed to devalue the CFA franc by a big round number designed to impress financial markets and eliminate any one-way bets against the currency: 50 percent relative to the French franc. Parity shifted from 50:1 to 100:1, effective immediately.[50] President Said Mohamed Djohar of the Comoros also attended the meeting because the Comorian franc had been pegged at parity with the CFA franc ever since the Comoros officially left the zone in 1981. However, the Comoros, not formally a member of the CFA franc zone, had not participated in the discussions leading up to the devaluation. Djohar was reluctant to agree to the 50 percent devaluation, but he did agree to devalue concurrently by a smaller amount, to 75:1.

Eventually, if wages and other domestic costs could be restrained, these dramatic moves would make the franc zone's exports competitive again in world markets. The immediate effect, however, was simply to make imported goods in the CFA franc zone twice as expensive as they had been. Preventing chaos was not going to be easy.

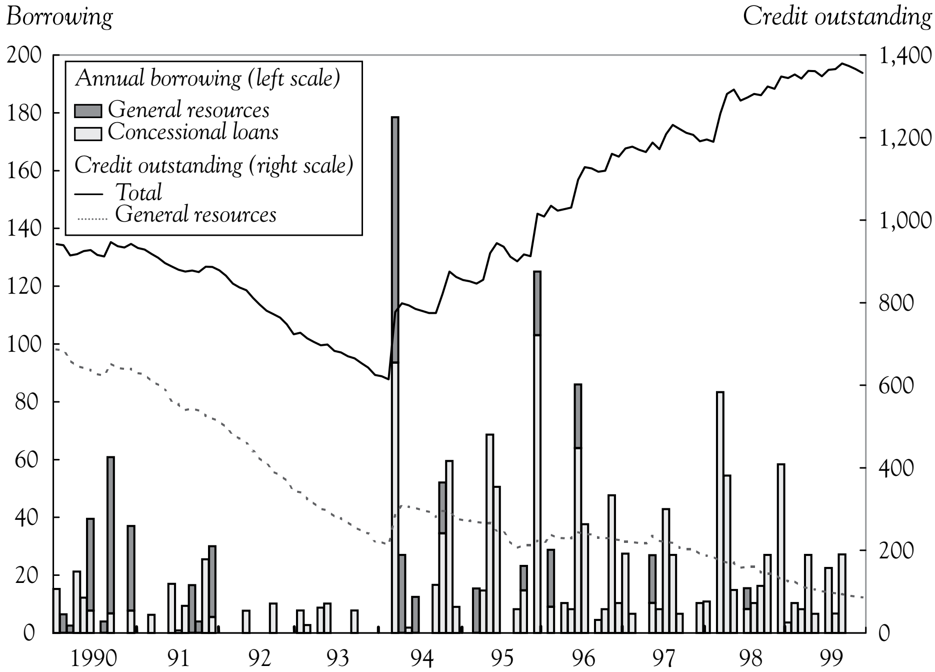
Postdevaluation Lending

Within 10 days of the announcement, IMF staff teams had arrived in the capitals of 13 of the 14 countries, and discussions were taking place in Washington with

[49]"CFA Franc Countries—Recent Adjustment Experience and Policy Issues," SM/95/261 (October 11, 1995), Appendix I, Table 3.

[50]This shift was sometimes described as a 100 percent devaluation. The value of the CFA franc fell by 50 percent against the French franc. The cost of acquiring French francs rose by 100 percent.

Figure 14.3. CFA Franc Zone: Use of Fund Credit, 1990–99
(In millions of SDRs, monthly data)



Source: International Financial Statistics.

the authorities of the other one, the Republic of Congo (owing to an unstable security situation in Brazzaville). At some point in the four years before the devaluation (1990–93), the Fund had lending arrangements in effect with all of the franc-zone countries (Figure 14.3 and Table 14.1), so the mission chiefs were all familiar with the countries' circumstances. By the end of 1993, however, all but four of those arrangements had expired. No CFA country was borrowing from the Fund's general resources. Benin, Burkina Faso, Equatorial Guinea, and Mali had ESAF arrangements in effect, and the Comoros had a SAF arrangement. All except Benin were out of compliance. The task now was to resume lending quickly, before popular resistance to the higher postdevaluation prices could take hold.

The most straightforward task was to resume lending to the four countries with which arrangements were already in effect. The programs had to be adjusted to account for the effects of the devaluation, and the authorities had to commit to reversing the policy slippages that had marred performance in 1993, but the requirements for success were fairly well understood. In Benin, the ESAF-supported program was remarkably well on track, especially considering that the economy had suffered the largest terms-of-trade

Table 14.1. CFA Franc Zone: Lending Arrangements, 1990–99

Country	Type of Arrangement	Beginning Date	Duration (Months)[a]	Amount: Agreed[a] (Millions of SDRs)	Amount: Used (Millions of SDRs)	Maximum Amount Owed: Millions of SDRs	Maximum Amount Owed: Percentage of quota[b]
Benin						70.97	156.7
	SAF	Jun 1989	36	21.91	15.65		
	ESAF	Jan 1993	40	51.89	51.89		
	ESAF	Aug 1996	48	27.18	16.31		
Burkina Faso						88.81	147.5
	SAF	Mar 1991	24	22.12	6.32		
	ESAF	Mar 1993	38	53.04	44.20		
	ESAF	Jun 1996	44	39.78	39.78		
	ESAF	Sep 1999	39	39.12	39.12		
Cameroon						146.18	78.7
	SBA	Sep 1988	21	61.80	38.63		
	SBA	Dec 1991	9	28.00	8.00		
	SBA	Mar 1994	19	81.06	21.91		
	SBA	Sep 1995	12	67.60	28.20		
	ESAF	Aug 1997	40	162.12	162.12		
Central African Republic						30.17	73.2
	SAF	Jun 1987	36	21.28	15.20		
	SBA	Mar 1994	12	16.48	10.71		
	ESAF	Jul 1998	41	49.44	24.48		
Chad						52.31	93.4
	SAF	Oct 1987	36	21.42	21.42		
	SBA	Mar 1994	12	16.52	10.32		
	ESAF	Sep 1995	43	49.56	49.56		
Comoros							
	SAF	Jun 1991	36	3.15	2.25	2.25	34.6
Congo, Republic of						27.39	47.3
	SBA	Aug 1990	21	27.98	4.00		
	SBA	May 1994	12	23.16	12.50		
	ESAF	Jun 1996	36	69.48	13.90		
Côte d'Ivoire						457.34	192.0
	SBA	Nov 1989	10	146.50	117.20		
	SBA	Sep 1991	12	82.75	33.10		
	ESAF	Mar 1994	39	333.48	333.48		
	ESAF	Mar 1998	36	285.84	123.86		
Equatorial Guinea						13.80	56.8
	SAF	Dec 1988	36	12.88	9.20		
	ESAF	Feb 1993	36	12.88	4.60		
Gabon						109.19	149.4
	SBA	Sep 1989	18	43.00	10.50		
	SBA	Sep 1991	18	28.00	4.00		
	SBA	Mar 1994	12	38.60	38.60		
	EFF	Nov 1995	40	110.30	60.67		

Table 14.1. (continued)

Country	Type of Arrangement	Beginning Date	Duration (Months)[a]	Amount: Agreed[a] (Millions of SDRs)	Amount: Used (Millions of SDRs)	Maximum Amount Owed: Millions of SDRs	Maximum Amount Owed: Percentage of quota[b]
Mali						144.44	154.8
	SBA	Aug 1988	22	12.70	12.70		
	SAF	Aug 1988	36	35.56	25.40		
	ESAF	Aug 1992	44	79.24	79.24		
	ESAF	Apr 1996	40	62.01	62.01		
	ESAF	Aug 1999	48	51.32	51.32		
Niger						62.91	186.7
	ESAF	Dec 1988	36	47.18	23.59		
	SBA	Mar 1994	12	18.60	11.11		
	ESAF	Jun 1996	38	57.96	48.30		
Senegal						250.68	294.6
	ESAF	Nov 1988	42	144.67	144.67		
	SBA	Mar 1994	5	47.56	30.91		
	ESAF	Aug 1994	41	130.79	130.79		
	ESAF	Apr 1998	48	107.01	96.47		
Togo						75.80	139.6
	ESAF	May 1989	48	46.08	38.40		
	ESAF	Sep 1994	45	65.16	54.30		

Source: IMF financial accounts.
Note: ESAF = Enhanced Structural Adjustment Facility; SAF = Structural Adjustment Facility; SBA = Stand-by arrangement.
[a]The duration and amounts are the final figures. Some arrangements were shortened or lengthened and/or reduced or augmented in size, after the initial approval.
[b]The percentage of quota is calculated as the maximum amount owed as a percentage of the quota in effect at that time. In some cases, the maximum percentage was reached at a different time, owing to a change in quota.

loss in the region. In March 1994, the Fund augmented the size of the arrangement and disbursed the third installment of available funds. Disbursements in ESAF arrangements with Burkina Faso, Equatorial Guinea, and Mali had been suspended in the second half of 1993, but new agreements were quickly reached in each case. Lending to Burkina Faso and Mali resumed in March, and to Equatorial Guinea in May.

Most of the other countries in the CFA franc zone were eligible for ESAF loans, but they faced two hurdles. First, as a formal requirement for access to ESAF resources, each country had to prepare a Policy Framework Paper (PFP) setting out the multiyear program for which the country was asking support, and the Executive Boards of both the IMF and the World Bank had to approve those PFPs. Second, the ESAF Trust was almost out of cash. The Fund was in the middle of a campaign to raise additional funds, but that effort would take time.

As a temporizing measure while these obstacles were being addressed, the staff set out to negotiate shorter-term adjustment programs the Fund could support with ordinary stand-by arrangements. In the course of 1994, such lending arrangements were approved for seven CFA franc countries. In six of those cases—Cameroon, the Central African Republic, Chad, the Republic of Congo, Niger, and Senegal—the stand-by arrangements were eventually succeeded by ESAF loans. The exception was Gabon, which had the highest per capita income in the region owing to its oil exports and was ineligible for concessional loans.

The Fund approved two new ESAF arrangements in 1994, for Côte d'Ivoire and Togo. The latter had already completed one ESAF arrangement, from 1989 to 1993, but it had been mostly out of compliance after the first two years owing primarily to political instability.[51] A replacement arrangement was negotiated over the course of three missions from November 1993 through the following June. The arrangement was approved and took effect in September 1994.

Côte d'Ivoire previously had borrowed from the Fund's general resources through a series of stand-by arrangements. Since the mid-1980s, each program had run into difficulties, and the Fund had disbursed only a portion of the initially agreed-on amount. No disbursements had been allowed since December 1991. The problem was not lax policies, given that the government had reduced the primary fiscal deficit from 7.5 percent of GDP in 1989 to 0.1 percent in 1992. The chief problem was that regardless of the measures the authorities implemented, they were swamped by a continual weakening of the world markets for coffee and cocoa. Even in the face of these challenges, the authorities had continued to repay earlier loans on schedule. By the time of the devaluation, outstanding obligations to the Fund had fallen to $158 million, from a peak of $681 million in 1984.[52]

In these difficult and politically chaotic circumstances, a staff team, directed by Christian François (Senior Advisor, African Department), arrived in Abidjan on December 6, 1993, to begin discussions on a policy program. That plan had to be discarded almost immediately because President Houphouët—who had led the country since independence in 1960—died the next day. The mission continued to work for two weeks in the middle of national mourning and political uncertainty while the government was reorganized, but serious negotiations had to be delayed.

Ouattara, the prime minister, expected to succeed Houphouët as president, but the constitution—written before the office of prime minister had been created—specified that the succession should go to the Speaker of the National Assembly. On December 9, the Speaker, Henri Konan Bédié, declared himself president, and Ouattara resigned. At that point, the only government official who was fully briefed and had been fully involved in the devaluation negotiations was the minister of finance, Daniel Kablan Duncan. Fortunately for the negotiations, Bédié soon appointed Duncan to succeed

[51]See "Togo—Staff Report for the 1994 Article IV Consultations and Request for Arrangements Under the Enhanced Structural Adjustment Facility," EBS/94/169 (August 24, 1994).

[52]Côte d'Ivoire repaid all of its obligations to the Fund's General Resources Account (GRA) by the end of 1997. All outstanding loans after that date were to the ESAF (later PRGF) Trust.

Ouattara as prime minister, and Duncan—who had served as chairman of the Development Committee in 1974–76 and had later worked for the World Bank Group—promised to continue the policies that Ouattara had begun. After a short break, François and his team returned on January 13, two days after the announcement of the devaluation, and concluded the program negotiations before the end of the month.

The Executive Board approved an ESAF arrangement for Côte d'Ivoire on March 11, 1994, and disbursed $84 million (SDR 59.6 million) as the first installment of a total commitment of $468 million (SDR 333.5 million, 140 percent of quota). Although some Directors were apprehensive about the government's ability to implement its ambitious adjustment and reform program, the tone of the meeting was primarily one of relief, gratitude, and hope.[53] Over the next three years, the government faithfully carried out its policies, and it borrowed the full amount of the arrangement.

This remarkable confluence of actions—a coordinated exchange rate adjustment by 14 countries; concerted action to strengthen policies in the wake of the devaluation; rapid action by the IMF and other multilateral institutions to resume lending in support of countries' programs; and a sharp increase in donor support, especially from France—had a notable effect on economic performance. In Côte d'Ivoire, economic growth accelerated from negative figures in 1990–93 to 6.5 percent in 1995–97. Consumer prices rose by more than 30 percent in 1994, but within two years inflation reverted to the low single digits. Other countries in the zone also generally showed marked improvements.[54] Donor support and the competitive benefits of the large devaluation provided a window of opportunity to liberalize and reform economic policies. In addition, in the years following the adjustment, most of these countries borrowed almost exclusively on concessional terms and received the most favorable terms on rescheduling older debts.

Sustaining these improvements was a challenge. The extremely weak initial conditions throughout the region—external market conditions, domestic fiscal and other imbalances, and political fragility in several countries—contributed to the difficulty of maintaining momentum without setbacks. By the end of the 1990s, some countries were embarking on a second wave of reforms while others were struggling to maintain their early progress. Nonetheless, by any standard, devaluation had proved to be the right decision.

Côte d'Ivoire faced particularly difficult problems because the government was trying to put the economy on a sustainable course while maintaining political stability in the absence of social cohesion or consensus. Nonetheless, for nearly five years after the devaluation, economic progress was strong and was buttressed by international support, including debt relief.

Much of Côte d'Ivoire's substantial debt to foreign commercial banks was in default from 1987 until a restructuring agreement was reached with the London Club in May

[53]Minutes of EBM/94/20 (March 11, 1994), pp. 3–51.

[54]For an overall review, see Clément (1996).

1997. Recognizing the need for further relief, in March 1998 the Fund approved a new ESAF arrangement that helped finance the up-front cost of the London Club agreement (see Chapter 9) and agreed that Côte d'Ivoire qualified for debt relief through the HIPC Initiative. By that time, however, the country's social structure was crumbling, and government corruption was increasingly thwarting economic progress. In 1999, the Fund and the authorities were never able to achieve agreement on the policy reforms necessary to continue the lending arrangement or to reach the HIPC completion point. That December, Bédié was overthrown in a coup d'état, and further international assistance was put on hold until the long-delayed presidential election of 2010 (won by Ouattara) restored a measure of order and credibility to the country.

The East African Community

Throughout most of the twentieth century, the region that now comprises Kenya, Tanzania, and Uganda was engaged in an effort to strengthen its economic relations and coherence. That endeavor began in 1917 with a customs union between Kenya and Uganda and peaked in 1967 with the formation of the three-nation East African Community (EAC). The EAC disbanded in 1977 as tensions arose between Idi Amin's Uganda and the other two members. Relations improved in the 1980s, and in November 1999 the three countries signed a treaty to reestablish the EAC.[55]

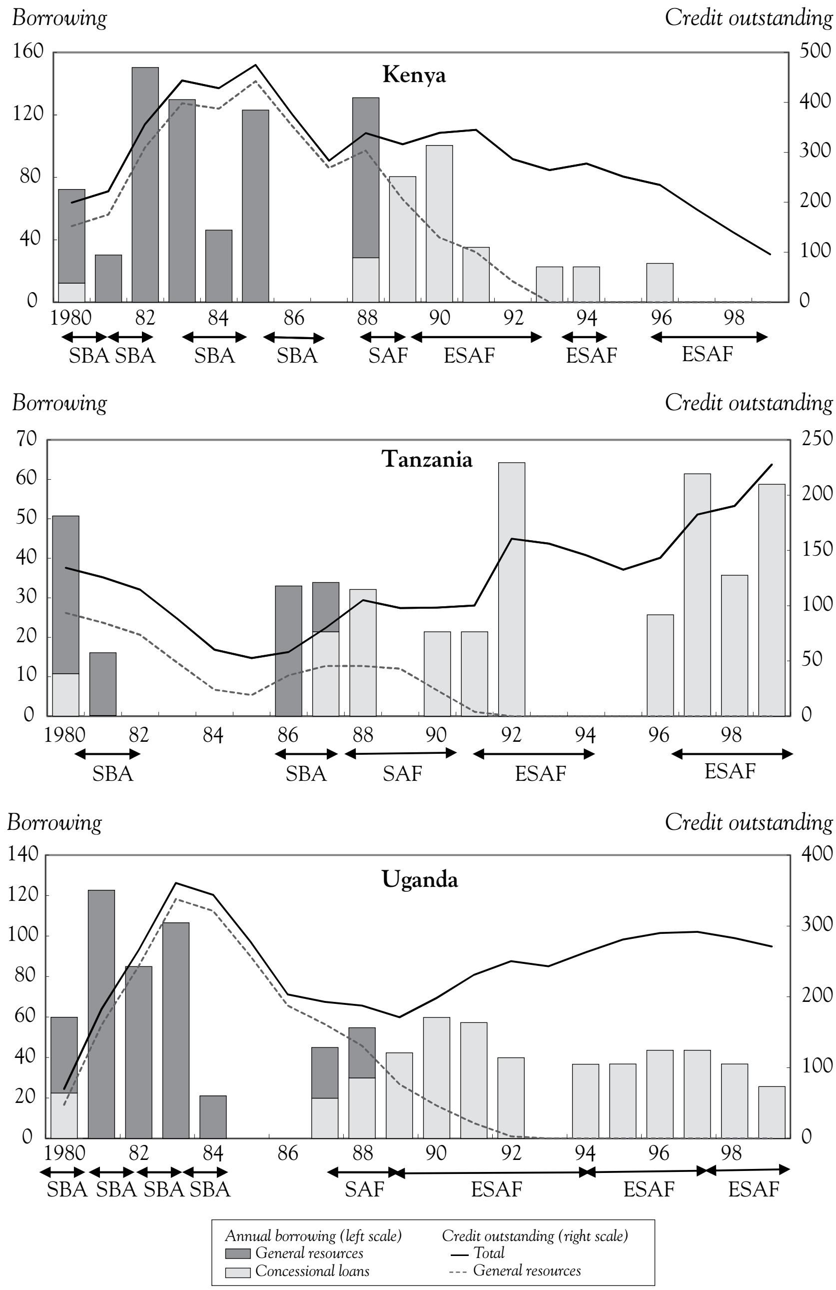
The IMF provided a regular flow of technical assistance and policy advice to all three countries throughout the 1990s. It also lent substantial sums to each country, exclusively on concessional terms, but the pattern of lending varied between countries (Figure 14.4). Lending to Kenya tapered off after 1990 and ceased after 1996, owing to concerns about economic mismanagement and pervasive corruption. Lending to Tanzania was substantial in the early 1990s but was particularly important in the second half of the decade after a new government initiated a major stabilization and development program. Lending to Uganda was fairly steady throughout the decade, in amounts that covered repayments on older loans and allowed for a moderate inflow of new money. In all three cases, the countries were able to repay all of the nonconcessional loans they had taken out earlier. By the end of the decade, all outstanding debts were to the ESAF Trust, with interest payable at 0.5 percent and with relatively long maturities. Uganda also received debt relief under the HIPC Initiative, and Tanzania was on track to begin getting relief in 2001.

Kenya

Throughout the 1970s and 1980s, Kenya had the best economic record in east Africa, and one of the best in sub-Saharan Africa. It achieved this performance

[55]The new EAC entered into force in July 2000. Burundi and Rwanda joined in 2007.

Figure 14.4. East Africa: Use of Fund Credit, 1980–99
(In millions of SDRs, annual data)



Source: IMF financial accounts.
Note: ESAF = Enhanced Structural Adjustment Facility; SAF = Structural Adjustment Facility; SBA = Stand-by arrangement.

largely on the strength of relatively modern infrastructure and a stable political system that welcomed foreign capital and expertise. Over time, as comfort with the status quo took hold, economic and political progress began to wane. Kenya enjoyed strong and regular financial and technical support from bilateral donors and from both the IMF and the World Bank, which kept the economy humming but provided little impetus or incentive for reform of an increasingly bloated, inefficient, and corrupt civil service.[56]

Donor countries' worries about corruption in Kenya burst into the open in 1986 when a European diplomat in Nairobi reported that a contract to construct the Turkwell Gorge Dam had been awarded uncompetitively and at high cost to a French company in exchange for kickbacks to senior government officials (Harden, 1990, pp. 185–88 and 213). Bilateral aid then declined, but the IMF and other multilateral lenders ignored the problem for several years and continued lending as long as macroeconomic policies remained sound. Corruption was not endemic to Kenya, and the central issue for multilateral institutions was that their assistance convey sufficient net benefits to the country.

Through the 1980s, the Fund lent to Kenya using a mix of concessional and nonconcessional arrangements. The last nonconcessional lending was in 1988, through a stand-by arrangement and a CFF drawing that supplemented a SAF arrangement. The Fund approved those higher-cost loans because the government insisted that it qualified for them, but the Fund did so reluctantly because management was worried that Kenya was taking on more debt than it could afford. The following May, those arrangements were canceled and replaced by an ESAF arrangement for a larger amount (but on more affordable terms): $306 million over three years (SDR 241.4 million, or 170 percent of quota).

The Fund suspended disbursements under the ESAF arrangement in 1991 following a weakening of policy implementation. The policy reversal had been a response to deteriorating economic conditions (poor rainfall, weak export markets, and influxes of refugees from neighboring countries) and to social unrest in the period leading up to the country's first multiparty elections. Although some major donor countries were concerned about the strength of the government's commitment to democratization, the Fund remained eager to help Kenya through these setbacks, at least by providing policy advice and working toward a resumption of lending.

The downward economic slide that began in the last quarter of 1991 culminated in a financial crisis in the spring of 1993. With most bilateral donors no longer willing to support the government of President Daniel arap Moi, the economy was squeezed by a severe shortage of foreign exchange. Initially, Moi reacted by ranting against the international community, accusing the IMF and the World Bank of making "dictatorial"

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[56]The Fund's relations with Kenya in the 1980s are covered in Boughton (2001), pp. 595–97.

demands on his country.[57] He also imposed exchange controls, reversing a long-standing policy of gradual liberalization. Within a few weeks, however, the newly appointed finance minister, Musalia Mudavadi, managed to reverse course again and embark on a major liberalization and reform program. The government also devalued the shilling to correct an estimated overvaluation and tightened monetary and fiscal policies. The Fund responded positively and agreed to monitor the program while working toward a new ESAF arrangement.

Although the Fund was fairly satisfied with Kenya's macroeconomic policies in the second half of 1993, it now—for the first time—turned its attention to the corruption problem. Ironically, the government was already taking steps to deal with corruption, including by setting up special units in the police force to investigate economic crimes. Bilateral donors were sufficiently impressed to begin to resume financial aid. Even so, oversight of state-owned enterprises was still lax and was leading to inefficiency and probably to larceny. The Fund insisted on adoption of legislation ensuring that future relations between the government and its enterprises would be transparent and at arm's length. The PFP that underpinned Kenya's request for an ESAF arrangement included a clause to that effect, and the staff drew attention to it in its report on the program negotiations. More generally, several Executive Directors expressed great concern about the extent of the government's commitment to clean government and its ability to control the problem.[58]

The conditions for the one-year ESAF arrangement approved in December 1993 did not include anticorruption measures. The authorities carried out the macroeconomic and reform policies in the program, and they borrowed the full available amount, $63 million (SDR 45.2 million, or 23 percent of quota). When that unusually short arrangement expired, negotiations on a successor arrangement focused more intently on the need for strong and comprehensive efforts to root out corrupt practices, which were judged to be still pervasive. In November 1995, as those negotiations continued, the Executive Board sent a signal to the authorities that "as a prerequisite for an ESAF arrangement, the authorities should provide greater assurances that the budget and the macroeconomic balances would not be undermined by corruption."

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[57]Kenya's state-run radio initially quoted Moi's remarks on March 19, 1993, which were then widely reprinted internationally, albeit with variations in wording. According to the BBC Monitoring Service, Moi complained that conditions set by the IMF and the World Bank were "harsh, unilateral, and dictatorial." Also see Ozanne (1993), quoting Moi saying that the policy conditions were "economically suicidal." Both sources were accessed at http://global.factiva.com.

[58]See "Kenya—Enhanced Structural Adjustment Facility – Policy Framework Paper for 1994–96," EBD/93/176 (November 17, 1993); "Kenya—Staff Report for the 1993 Article IV Consultation and Request for a One-Year Arrangement Under the Enhanced Structural Adjustment Facility," EBS/93/191 (November 30, 1993); and minutes of EBM/93/177 (December 22, 1993). No previous Fund documents on Kenya included the words "governance" or "corruption." At the Board meeting, speakers voicing concern about corruption included Niels Peter Hahnemann (Denmark), Karin Lissakers (United States), Roderick Rainford (Jamaica, Temporary Alternate to the Director for Canada), and Stefan Schoenberg (Germany).

Directors placed particular importance on "strict enforcement of the code of conduct in the civil service, full transparency of public finances . . ., and additional efforts to recover misused public funds."[59]

The Fund took an unusually tough line on the conditionality for the ESAF arrangement Kenya requested in 1996. First, the government had to complete or show progress on 11 actions prior to approval of the program, ranging from standard measures to tighten monetary and fiscal policies to detailed structural actions such as "agreement in principle on contracting out the management of the container terminal at the Mombasa port; and appointment of a qualified person for the position of Executive Chairman of the Kenya Ports Authority." The anticorruption drive was represented on this list by an injunction to commence "strict enforcement of the civil service Code of Conduct." The program also required a large reduction in the size of the civil service, privatization of 40 public enterprises by the end of 1996, and other major structural changes. To make any drawings after the initial one, the government also would have to take unspecified "measures to prevent the recurrence of misuse of public funds."[60]

The government made a decent start at meeting these requirements, and in April 1996 the Fund approved a three-year ESAF arrangement for $217 million (SDR 149.6 million, or 75 percent of quota). Unfortunately, that turned out to be the last sign of real progress. The week after the Board meeting, Camdessus went to Nairobi and delivered a blunt message to President Moi. The Fund's approval of fresh lending had opened a window of opportunity that the government should "seize . . . by implementing fully the ESAF-supported program, especially the commitment to fight corruption, improve financial accountability and transparency, and strengthen the judicial system." Moi reportedly expressed his commitment to do so, but the extent of that commitment was yet to be tested.[61]

After the initial tranche of $36 million, Kenya made no further drawings on the ESAF loan. The staff judged the implementation of financial policies and progress on structural reforms to be satisfactory, but the perception of financial irregularities and a general atmosphere of corruption persisted.[62] Even at the end of the decade, the Fund regarded Moi's clean-up efforts as "formalistic," and it refused to open discussions on a renewal of lending.[63]

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[59]Minutes of EBM/95/106 (November 10, 1995), p. 48.

[60]"Request for Arrangement Under the Enhance Structural Adjustment Facility," EBS/96/62 (April 12, 1996), pp. 17–19.

[61]See report by Camdessus at EBM/96/46 (May 15, 1996), p. 3.

[62]"Kenya—Staff Report for the 1996 Article IV Consultation," SM/97/70 (February 28, 1997), p. 7.

[63]"Kenya—Staff Report for the 1999 Article IV Consultation," SM/99/281 (November 24, 1999). The Fund resumed lending in August 2000, under a PRGF arrangement.

Tanzania

Relations between the IMF and Tanzania were not always smooth. When the authorities requested a stand-by arrangement in 1979, the Fund informed them that approval would require important changes in economic policy, including both a substantial devaluation of the exchange rate and a major shift away from state control of economic activity. President Julius Nyerere angrily refused, ordered the staff mission to leave the country, and publicly attacked the IMF for trying to impose its own "ideology" on Tanzania and other poor countries. A stand-by arrangement was approved in 1980, but its conditions were not met, and relations remained tense for the next five years.[64]

Nyerere, who had led Tanzania since it gained independence from Great Britain (as Tanganyika) in 1961, retired from the presidency in 1985. His successor, Ali Hassan Mwinyi, continued the basic thrust of Nyerere's socialist economic model but allowed his officials to apply it more flexibly. That change opened the door for renewal of IMF support and for the beginning of a substantive reform program. The Fund provided a new stand-by arrangement in 1986 and began lending to Tanzania through the less expensive SAF in 1987 (Figure 14.4). The three-year SAF arrangement was fully drawn and successfully completed in October 1990.

In the rest of the 1990s, the Fund assisted Tanzania through two multiyear ESAF arrangements. The first, approved in July 1991, came when the government was beginning to pursue more-aggressive liberalization reforms, notably by opening up the financial sector to private domestic and foreign banks and exchange offices.[65] The Fund welcomed those changes, and it urged the authorities to adopt a similarly forceful attitude toward the country's notoriously inefficient system of parastatal industries. The program started well, but by 1993 the government's resolve began to waver as its attention shifted to political demands in anticipation of Tanzania's first multiparty elections. For the next two years, the Fund stopped lending. Most donor countries also became disillusioned and reduced their development assistance.

The real breakthrough for Tanzania came in November 1995, with the successful establishment of multiparty democracy and the election of Benjamin W. Mkapa as the country's third president. By this time, the rigid form of state-directed socialism that Nyerere had once championed had been widely rejected, including by Nyerere himself. The crucial question was whether the government had the will and the ability to implement the changes it was now espousing.

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[64]The history of the IMF's relations with Tanzania through 1989 is covered in Boughton (2001), pp. 597–602.

[65]These reforms were mostly homegrown, not implemented under outside pressure. Economically, the driving event was the adoption of the Zanzibar Declaration by the ruling party in February 1991, which effectively overturned the socialist doctrine embodied in the 1967 Arusha Declaration. Politically, the major step was the constitutional amendment of May 1992 that provided for multiparty elections.

Mkapa quickly established economic stability and recovery as his top priority. The monetary and fiscal authorities had already used the 1995 Article IV discussions with the IMF staff (led by African Department Deputy Director Goodall Gondwe) to begin talks on a program to qualify for renewed financial support. Donor countries, however, were not quite ready. When the Executive Board met a few days after Mkapa's inauguration to conclude the consultations, Directors from some of the main creditor countries expressed reluctance to consent to resume lending until the untested government could establish a track record of improved economic policies. The Board agreed to consider a new ESAF arrangement only after completion of a six-month staff-monitored program for the first half of 1996.[66]

Tanzania implemented the staff-monitored program successfully. Gondwe and his staff team returned to Dar es Salaam in August 1996 to negotiate a three-year ESAF arrangement. Technical negotiations were concluded in Washington during the IMF/World Bank Annual Meetings in early October, and Mkapa met with Fischer and Ouattara while on an official visit to Washington a few days later. By then, confidence in the government's commitment to reform was fully restored, and in November the Executive Board approved an ESAF arrangement for $234 million (SDR 161.6 million, or 110 percent of quota).

For the rest of the decade, Tanzania recorded impressive economic performance.[67] Growth accelerated enough that per capita income finally began to rise. Inflation subsided to single digits, fiscal and monetary policies remained restrained, and the government carried out a steady stream of wide-ranging structural reforms. By the time the ESAF arrangement expired, both the government and the IMF were satisfied that macroeconomic stability had been achieved and that attention could be focused more intensively on the deeper reforms needed to reduce poverty, develop infrastructure, and strengthen social indicators on health and education.

Based on the government's poverty reduction strategy, in 2000 the Fund approved a PRGF arrangement and began providing interim debt relief under the terms of the enhanced HIPC Initiative. That November, the Executive Director for Tanzania, Cyrus Rustomjee (South Africa), conveyed the authorities' thanks to the Fund for its support throughout Tanzania's "difficult and long journey [through] the adjustment process." Remarkable for a country that had once been so strongly at odds with the views of the Fund, the authorities now accepted that their "recent efforts at addressing poverty and enhancing human development could not have been successful without this support."[68]

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[66]Minutes of EBM/95/111, November 27, 1995, pp. 35–79. The suggestion to require a staff-monitored program was made by Huw Evans (United Kingdom) and was supported explicitly by Barry S. Newman (Alternate, United States) and Bernd Esdar (Alternate, Germany).

[67]For analyses, see Treichel (2005) and Sharer (2009).

[68]BUFF/ED/00/174, November 29, 2000.

Uganda

The IMF lent occasionally to Uganda in the 1970s and early 1980s, but financial support intensified in response to the ascension to power by President Yoweri K. Museveni in 1986. Museveni's overthrow of Milton Obote raised expectations of political stability sufficiently to draw foreign capital back into the country and thus lay the groundwork for sustainable economic progress. The IMF responded with a SAF arrangement in 1987 and provided nearly continuous loans on concessional terms until 2006.[69]

The IMF used the ESAF as its primary conduit for lending to Uganda in the 1990s. The Fund approved three consecutive multiyear arrangements, running from April 1989 through June 1994, September 1994 through November 1997, and November 1997 through March 2001. All of these arrangements were fully drawn, and only minor policy slippages occurred. As official development aid and private capital inflows both increased in response to the improved economic picture in Uganda, the IMF gradually reduced the scale of its own lending. Repayments of earlier loans nearly equaled new lending, so that Uganda's indebtedness to the Fund increased only marginally over the decade (Figure 14.4).

Museveni remained committed to a liberal economic policy regime throughout the 1990s, with dramatic results for economic performance. Per capita income, which had declined tragically under the misrule of Idi Amin (1971–79) and Obote (1980–85), rose from $158 in 1986 to $244 in 2000, while the poverty rate fell by a third.[70] Consumer price inflation fell from triple digits in the late 1980s to single digits by the mid-1990s. The exchange rate stabilized early in the decade and then began appreciating in response to fresh inflows of capital. As in Tanzania, the government was able to declare at least a temporary victory over macroeconomic instability and move on to the more difficult challenges of economic and social development.

By the time Uganda embarked on its second ESAF-supported program in 1994, donor countries considered it to be one of the few good role models for other low-income countries. It had achieved nearly eight years of economic progress and had demonstrated a solid record of cooperation with the IMF and other multilateral agencies. It was nonetheless still mired in poverty because of its heavy dependence on a single export crop—coffee—and its greatly underdeveloped infrastructure for health,

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[69]The history of the IMF's relations with Uganda through 1989 is covered in Boughton (2001), pp. 679–84. For an overview of subsequent relations, including an assessment of deteriorating performance after 2000, see "Uganda: Ex Post Assessment of Performance Under Fund-Supported Programs and Public Information Notice on the Executive Board Discussion," Country Report No. 06/24 (January 2006); accessed at http://imf.org/external/pubs/cat/longres.aspx?sk=18827.0. Uganda's last stand-by arrangement expired in 1984, and its last use of the GRA was a pair of CFF drawings in 1987 and 1988 to supplement the SAF arrangement. As shown in Figure 14.4, Uganda repaid all of its GRA loans by 1993.

[70]These income data are for per capita GDP measured in constant U.S. dollars normalized on the year 2000 (World Bank, World Development Indicators).

education, sanitation, transportation, and other services. Much of its initial success had been financed by loans rather than grants, saddling the government with a heavy burden of external debt. Even though two-thirds of its debt was owed to multilateral institutions and thus carried relatively low interest rates and long maturities, Uganda's debt service in 1994 equaled nearly 40 percent of its export revenues. Many African countries were in worse straits regarding debt service, but the combination of high burden and strong performance put Uganda at the head of the list of countries considered eligible for debt relief.

Paris Club creditors kicked off the major debt-reduction process for Uganda in February 1995 by granting relief under the terms the G7 had advanced at the summit meeting in Naples the previous summer. Uganda was the first country to be accorded Naples terms relief, which reduced the net present value of eligible debt by two-thirds. The Paris Club decision directly reduced scheduled debt-service payments (interest and principal) by $12 million for the first year, and similar action by other bilateral official and private creditors was expected to provide an additional $26 million in annual relief. Those actions would enable Uganda to eliminate most of its outstanding payments arrears, but it was less clear whether it would put the country's debt on a sustainable path in the future.[71]

Once the Interim and Development Committees approved the HIPC Initiative in September 1996 (see Chapter 13), the staff set about examining the case for declaring Uganda eligible for multilateral debt reduction and for putting it on a fast track toward getting that relief. A staff mission, led by Naheed Kirmani (Assistant Director, African Department), traveled to Kampala in September to discuss terms for the third year of support under the ESAF arrangement. The staff and the authorities worked together to prepare a debt sustainability analysis (DSA) as a standard input into the request for ESAF financing. Fortunately for the ESAF request but unfortunately for HIPC eligibility, the DSA suggested that Uganda's debt profile appeared to be sustainable over the medium term, with debt-service payments falling below 20 percent of export revenues by the end of the decade.[72] The Fund could lend with confidence that the government would have the financial capacity to repay the loans, but the case for offering debt relief did not appear strong.

The critical issue for the assessment of Uganda's eligibility for relief under the HIPC Initiative was not the central scenario in the DSA. It was the economy's vulnerability to adverse shocks. With two-thirds of export revenues derived from coffee, a drop in the world price—possibly resulting from a remote event such as a bumper crop in Brazil—could greatly worsen Uganda's debt and debt-service ratios. The scenario also could

[71]See "Uganda—Staff Report for the 1995 Article IV Consultation and Mid-Term Review of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility," EBS/95/62, April 5, 1995.

[72]"Uganda—Request for the Third Annual Arrangement Under the Enhanced Structural Adjustment Facility," EBS/96/170, November 4, 1996, pp. 14–17.

be thrown off course by worsening of the terms on which the government could borrow, by a higher than expected rise in imports in response to growth in aggregate demand, or by a shortfall in transfers from emigrants (workers' remittances). On that basis, the staff recommended declaring Uganda to be the first country eligible for HIPC debt relief.

The Executive Board accepted that recommendation in March 1997, although a few Directors from creditor countries grumbled that the case was borderline and therefore should not constitute a precedent that would let a flood of other countries in through an open door. More contentious was the question of when to set the decision and completion points as defined in the HIPC Initiative. To reach the decision point, an eligible country had to have completed a three-year program of strong implementation of macroeconomic policies and structural and social policy reforms. If that requirement was applied retroactively, then Uganda's successful completion of the ESAF arrangement in the fall of 1997 would satisfy it. The political pressure on the Fund to get the first debt-reduction case under way before the spring meeting of the Interim Committee was intense,[73] so the Executive Board agreed to set the decision point for Uganda in April and to begin providing interim relief at that time.[74]

Setting the completion point posed harder problems. Everyone agreed that Uganda's long record of adjustment and reform justified some shortening of the three-year interval between decision and completion points that was intended to be the norm. Most of the G7 countries expressed a preference for a two-year interval, which would allow time for the Fund to assess the remaining structural reform agenda and to see whether the interim debt relief was sufficient. Thomas Bernes (Canada), however, argued "strongly" for a completion point "no later than April 1998," and Huw Evans (United Kingdom) supported the appeal of many other Directors for a completion point in September 1997. This split among the major creditors opened the door for compromise, which Camdessus used to generate a consensus in favor of April 1998. The HIPC Initiative was thus launched, with Uganda to be accorded full debt relief in just 12 months but with a caveat attached: the decision was "truly exceptional" and was not to create similar expectations for any of Uganda's neighbors.[75]

On April 8, 1998, Uganda became the first country to reach the completion point under the HIPC Initiative. That achievement released $650 million to relieve

[73]Though couched in diplomatic politeness, the Interim Committee communiqué of September 1996 had strongly advised the IMF to approve at least one country by this time: "The Committee requested the Executive Board to proceed quickly with implementation and to report on progress to the Committee in spring 1997." As noted in Chapter 13, Interim Committee members were themselves being subjected to intense political pressure. As the Canadian Director remarked at the March 12 Board meeting, approving Uganda's request was "crucial if we are to demonstrate to an increasingly skeptical public the commitment of the Fund and World Bank to proceed with this Initiative"; minutes of EBM/97/23, March 12, 1997, p. 7.

[74]Minutes of EBM/97/23, March 12, 1997; Chairman's Summing Up, pp. 60–62.

[75]The "truly exceptional" phrase was suggested by Bernes in his statement at EBM/97/23. It was then picked up by five other Directors, and Camdessus included it in his Summing Up of the discussion.

Uganda's debt burden, to be delivered over a period of several years by both bilateral and multilateral creditors.[76] The IMF's portion was $69 million, in the form of a grant from the ESAF-HIPC Trust. That amount was transferred to an escrow account within the trust, to be used to meet a portion of Uganda's debt-service payments to the Fund as they fell due. In all, this HIPC debt relief was calculated to reduce the net present value of Uganda's external debt by 20 percent.[77]

Other Lending to Low-Income Countries

A close look at IMF lending to low-income countries in Africa reveals the full extent of the difficult and multivariate challenge the Fund was trying to meet, and the infrequency with which the Fund found lasting success. Nonetheless, the successes it achieved were far from trivial or ephemeral. This section reviews four countries to illustrate the variety of this experience.

Ethiopia and Rwanda had been making extremely limited and uneven economic progress, constrained in large part by the burdens of internal and external armed conflicts. The Fund lent to them sporadically during relatively peaceful periods, but found difficulty getting sustained reform processes under way. In contrast, Malawi and Mozambique borrowed more steadily for long periods at a stretch. Success in Ethiopia and in Malawi may also have been undercut by the Fund's attempts to get the authorities to make great changes quickly. In contrast, Mozambique succeeded in making great changes quickly, aided by a deep sense of national ownership of the reforms.

Ethiopia

Ethiopia was the first country to ask for a loan from the IMF, in April 1947. The Fund denied the request on the grounds that Ethiopia did not seem to have a large enough "balance of payments need" to justify the amount being requested, but it made two smaller loans to the country, in 1948 and 1949. Ethiopia did not borrow again for nearly three decades (Horsefield, 1969, pp. 189–90).[78]

[76]In present value terms, the amount of relief was calculated to be $350 million. For details, see "Uganda to Receive US$650 Million in Debt Relief," PR/98/13 (April 8, 1998); accessed at http://www.imf.org/external/np/sec/pr/1998/pr9813.htm.

[77]"Initiative for Heavily Indebted Poor Countries—Completion Point Document," EBS/98/55 (March 20, 1998). For a summary of the result, see "Uganda to Receive $650 Million in Debt Relief," PR/98/13 (April 8, 1998). Additional assistance was approved in February 2000, bringing total HIPC Initiative relief for Uganda to $2 billion.

[78]Ethiopia made one further request to borrow, in 1951, but it withdrew the application before the Fund could act on it (Horsefield, 1969, p. 325). From 1978 to 1982, Ethiopia borrowed from the Trust Fund and from the Fund's general resources, the latter comprising a stand-by arrangement and two drawings through the CFF. The country's last use of general (nonconcessional) resources was in June 1982.

As the 1990s dawned, Ethiopia had not borrowed for several years, and in 1991 it finished repaying all of its earlier loans. From 1987 through the early months of 1991, a military dictatorship led by Mengistu Haile Mariam and allied with the Soviet Union ruled the country. Rebel forces overthrew Mengistu in May 1991, and a new government took power, headed by Meles Zenawi. Meles set out to reform the economy in a more liberal direction, albeit without fundamentally reducing the economic role of the state. This new policy orientation encouraged the IMF and other international lenders and donors to reenter Ethiopia.

In October 1992, the Fund approved a SAF arrangement for $71 million (SDR 49.4 million, or 50 percent of quota). The authorities implemented both the stabilization and the reform elements of the program fully, and they drew the full amount of the available funds over a period of three years. They then applied for and received a three-year ESAF arrangement for $127 million (SDR 88.5 million), beginning in October 1996. That program soon went awry, leading to an unfortunate and ultimately unnecessary impasse with the IMF.

Neither a spending spree nor any other inflationary binge caused the problem. That type of slippage might have been forgivable in a country with a per capita income of less than US 50 cents a day and development needs markedly in excess of the amounts the country was receiving in international assistance. The fiscal deficit and the inflation rate were both better than forecast in the first year of the arrangement. The staff, however, became convinced that the authorities were not sufficiently committed to economic liberalization, which the Fund believed to be necessary for Ethiopia to achieve and sustain good growth and reduction of its extreme poverty.

The staff's disaffection with the Meles government began when it learned only gradually and well after the fact about a series of unusual financial transactions involving the national power company and Ethiopian Airlines. At the beginning of June 1996, three months before the Executive Board approved the ESAF arrangement, the government contributed the equivalent of about 2.75 percent of GDP to the capital of the electric power company, to be invested over time in energy development. The money for this investment (denominated in birr, the local currency) was placed in a "sinking fund" account at the central bank. In late August, the central bank lent a similar amount, in U.S. dollars, to the national airline to repay a foreign commercial bank loan that had been secured by liens on four airplanes and guaranteed by the government. The central bank loan reduced foreign exchange reserves by about 20 percent. Neither of these transactions was disclosed to the Fund until after the first ESAF disbursement.

At the end of February 1997, Ethiopian Airlines issued birr-denominated bonds, which were purchased by the power company using its balance in the sinking fund at the central bank. The net effect was that money intended for energy development was diverted (temporarily, but with an eight-year maturity) to pay off the airline loan, with local currency converted to dollars using the reserves of the central bank. As independent critics later pointed out, the transaction made commercial sense because the lost interest on the reserves was much smaller than the interest saved by repaying the foreign bank loan (Wade, 2001, pp. 70–71; and Stiglitz, 2002, pp. 25–32).[79] The cost that those critics failed to acknowledge was that the transaction also sharply reduced the country's liquidity for balancing international payments. Protecting and enhancing that liquidity was a major purpose of the Fund's lending, and the government's failure to make a timely disclosure of its actions was seen in Washington as a serious breach of trust that called into question the authorities' commitment to the reform agenda.

The shortfall in foreign exchange reserves and associated changes in other monetary accounts put Ethiopia out of compliance with the terms of the ESAF arrangement. The Fund could simply have refused to grant a waiver and suspended disbursements until the accounts were back under control. Instead, both the staff and the Executive Board decided to make an issue of an unrelated problem, the government's reluctance to move ahead quickly with a planned liberalization of the financial system and the foreign exchange regime. In September 1997, the staff informed the authorities and Fund management that it could not recommend completing the review of the program (a required step before the next disbursement could be made) owing to the lack of progress on these structural reforms.

Normally, when negotiations break down in this way, the Executive Board does not get involved beyond being informed by the Managing Director. On this occasion, management decided to send "a clear, unequivocal signal from the Fund" in the form of a letter to the prime minister, backed up by a consensus of the Executive Directors. At an informal meeting of the Board on October 8, 1997, five Directors—Bernd Esdar (Germany), Karin Lissakers (United States), Jon Shields (Alternate, United Kingdom), M.R. Sivaraman (India), and Eva Srejber (Sweden)—spoke in favor of letting the program lapse and insisting that liberalizing reforms be implemented before any resumption of lending. Dinah Z. Guti (Zimbabwe), whose constituency included Ethiopia, defended the authorities' views, and both Marc-Antoine Autheman (France) and Alexandre Kafka (Brazil) called for a cautious approach, but no other Directors spoke in favor of an immediate resumption of lending.[80]

A letter from Ouattara (Deputy Managing Director) to Meles on October 15 conveyed to the authorities the basis for the Fund's decision to suspend lending. The letter singled out liberalization of the auction market for treasury bills and of the foreign

[79]Both attacks contain substantive errors in their description of the events, but they are correct in stating that the Fund's objections to the way the transactions were carried out by the government contributed to the suspension of lending under the ESAF arrangement. For the IMF staff analysis, see "Ethiopia—Staff Report for the 1997 Article IV Consultation," SM/97/267 (November 7, 1997), pp. 9–10. A more detailed chronology and assessment is attached to a memorandum from Eduard Brau (Director, Office of Internal Audit) to the Managing Director, "Ethiopia—Internal Review," October 24, 1997; IMF archives, DMD-AI, Accession 2000-0117-0003, B2261.

[80]Minutes of IS/MTG/97/5 (October 8, 1997).

exchange market as the reforms on which a resumption of discussions would depend.[81]

In retrospect, the Fund's insistence on liberalization appears to have been excessively rigid, especially as regards the external capital account. Anupam Basu (Deputy Director, African Department) had been actively involved in the discussions in Ethiopia through 1997, and summarized the dispute succinctly:

> The authorities feared that the adoption of a liberalized exchange system might lead to disruptive capital outflows which could not be easily checked. The staff had argued the opposite: in an open exchange system, with broadened financial markets and more attractive domestic financial assets underpinned by appropriate interest rates and sound policies, capital inflows were more likely to materialize than outflows. Unfortunately, the authorities remained unconvinced, partly because they had been receiving a conflicting message from other sources.[82]

At the time—the financial crisis in East Asia was still building steam—the staff's confidence in its view on capital account liberalization was at a historic high. The policies and conditions that Basu described as necessary for openness to lead to capital inflows were assumed to be achievable, even in a country as severely underdeveloped as Ethiopia. Guti noted that "the authorities did not disagree with the staff on the objectives. However, they preferred to move forward more cautiously in order to avoid disruption to the economic system."[83] A few years later, perhaps, this gap could have been bridged.[84]

This suspension of lending did not last long, but other problems ensued as a result of the outbreak of a violent border conflict with Eritrea in May 1998. A two-year war upset the government's plans to stabilize the country's finances. Despite the uncertainties, the

[81]IMF archives, AFR-AI, Accession No. 2001-0185.

[82]Minutes of IS/MTG/97/5 (October 8, 1997), p. 6. The reference to a "conflicting message from other sources" reflected the staff's frustration with World Bank staff (including Joseph Stiglitz, the Bank's chief economist) who were telling the authorities that the Fund was wrong on this issue. The staff argument in favor of liberalizing the foreign exchange market was set out in more detail in "Ethiopia—Staff Report for the 1997 Article IV Consultation," SM/97/267 (November 7, 1997), p. 21.

[83]Minutes of IS/MTG/97/5 (October 8, 1997), p. 6. The staff was not insisting on an open capital account, but it was asking for actions that would allow residents to transfer balances more freely between domestic and foreign currencies. The sticking points concerned the authorities' unwillingness to allow recipients of foreign exchange to retain it in interest-bearing accounts and use it freely for current transactions, or to allow foreign exchange offices to make payments for cash transfers. It should be noted that the staff position was not universally held. Owen Evans (Assistant Director, Fischer's office) noted that "Reluctance by a small developing country to liberalize payments for current transfers because of the risk of disguised capital flight is common. Fund staff do not usually take such a dogmatic view. . . . Overall, these . . . issues do not seem to me to provide a sufficiently strong basis for failing to move ahead"; memorandum from Evans to Fischer, "Ethiopia—Quick Initial View," October 3, 1997; IMF archives, DMD-AI, Accession 2000-0117-0003, B2261.

[84]In October 1998, when Ethiopia's next request to borrow was being considered, Sivaraman (India) opined that the Board's 1997 decision had been "a bit hasty"; minutes of EBM/98/107 (October 23, 1998), p. 21.

staff and the authorities reached agreement in July 1998 on a program that the Fund could support by resuming lending under the ESAF arrangement. In recommending approval, the staff cautioned that "the integrity of Ethiopia's economic program ultimately hinges on a timely and peaceful resolution of the border dispute with Eritrea."[85] A few Executive Directors, led by Roberto F. Cippà (Switzerland), would have preferred to wait for peace before resuming lending, but the Board as a whole agreed that Ethiopia was making a strong enough effort to warrant the risk the Fund was taking.[86]

In the 1998–99 program, the authorities agreed to most elements of the requested financial liberalization. The authorities, not the staff, formulated other important elements of the program and the government assumed ownership of the overall reform strategy. With goodwill restored, the Fund not only approved a second disbursement under the ESAF arrangement, it also agreed that Ethiopia—with one of the heaviest debt burdens relative to incomes and export revenues of any low-income country—was eligible for the HIPC Initiative. That put Ethiopia on a path toward the decision point, after which it could begin receiving interim debt relief.

Unfortunately, the persistence of the border conflict with Eritrea destabilized the economy, and discussions on further lending were inconclusive throughout 1999. When the ESAF arrangement expired that October, Ethiopia had been allowed to borrow only a third of the total commitment. More sustained progress would have to wait for peace.[87]

Rwanda

Rwanda became a member of the IMF in 1963, a year after gaining independence from Belgium. The years immediately before independence had been marred by violent conflicts between the two main ethnic groups, Hutus and Tutsis, as a result of which some 150,000 Tutsis fled to become long-term refugees in neighboring countries. The government of the new member country was controlled by Hutus, who were also a large majority of the population. From 1966 through 1969, the government borrowed from the Fund steadily but in small amounts, through a

[85]"Ethiopia—Request for the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility," EBS/98/169 (September 28, 1998), p. 26.

[86]Cippà abstained from approving the decision. Wolf-Dieter Donecker (Alternate, Germany), Alessandro Giustiniani (Temporary Alternate, Italy), and Kai Aaen Hansen (Denmark) expressed support for Cippà's view but approved the decision; minutes of EBM/98/107 (October 23, 1998.)

[87]A final peace accord was signed in December 2000. A three-year PRGF arrangement was approved in March 2001 and fully drawn; interim debt relief began when the HIPC decision point was reached in November 2001; and the completion point for full debt relief was reached in April 2004. For reviews of this period, see "The Federal Democratic Republic of Ethiopia: Ex Post Assessment of Long-Term Fund Engagement," Country Report No. 05/26 (January 28, 2005); accessed at http://www.imf.org/external/pubs/cat/longres.cfm?sk=18010.0. Also see Mahone (2007).

series of four stand-by arrangements. It did no more conditional borrowing for the next 30 years.[88]

Throughout the 1980s, Rwanda enjoyed relative political calm, but its economic fortunes worsened under the burden of weak export markets, a small and underdeveloped internal market hampered by a limited transportation network and the long overland distance through Tanzania and Kenya to the nearest port facilities, and an increasingly overvalued exchange rate. The Rwanda franc was pegged to the U.S. dollar until 1983, when the authorities switched to a peg to the SDR. Although the government pursued sound financial policies and kept price inflation in line with the major industrial countries, the strength of the U.S. dollar throughout much of the decade forced an effective appreciation of the franc in both nominal and real terms.

As these economic woes spilled over into political dissatisfaction in 1990, President Juvenal Habyarimana—who had ruled Rwanda since taking power in a coup in 1973—announced his intention to prepare a new constitution based on multiparty democracy. He also opened discussions with the IMF on an economic program to be supported by the SAF. Those discussions concluded satisfactorily in September 1990, but a few weeks later a rebel force led by Tutsi refugees invaded from bases in Uganda, once again dragging Rwanda into ethnic violence.

Throughout this two-year civil war, the Habyarimana government did its best to carry on with its planned economic reforms. Drawing largely on the Fund's policy advice and technical assistance, the authorities devalued the franc by 40 percent in November 1990, took steps to liberalize the foreign exchange regime, and introduced important fiscal reforms. The Fund renegotiated the 1991 program to take account of the fiscal pressure of the war, and in April 1991 it approved a three-year SAF arrangement totaling close to $30 million (SDR 21.9 million, or 50 percent of quota). The Fund made the first of the three scheduled disbursements right away, but by the time the second and third were due, the war had badly derailed the economic program.

Up to this point, the story evolved much like those of many other countries in the region, with the government of a desperately poor country struggling to cope with immense economic and political adversity. It then got much worse. On April 6, 1994, the president's airplane was shot down as it approached the airport at Kigali. Habyarimana's death triggered an unimaginable genocidal slaughter in which at least 800,000 people—a tenth of the total population—were systematically murdered in the course of just three months. As many as 2 million others fled to refugee camps in neighboring countries. Although the war ended almost as suddenly as it began, it left social, political, and economic scars that would take many years to heal.

[88]Rwanda's maximum indebtedness to the Fund in the 1960s was $7 million, slightly more than 50 percent of quota. It repaid all of those loans by 1971, and from 1976 until 1995 it maintained a positive reserve-tranche credit position. In 1979–81, it took out $13 million (SDR 10.7 million) in unconditional Trust Fund loans, but much of that balance was offset by its credit position in the Fund's general accounts.

In January 1995, when some semblance of security had been restored in Kigali, the Fund sent a mission led by Sadikiel N. Kimaro (Deputy Division Chief, African Department) to find out how the institution could best help rebuild Rwanda's finances. Because the preparatory work for a policy program qualifying for ESAF support was going to take many months of hard work, the Fund decided to temporize by making a CCFF loan to compensate for the disruption of international trade in 1994. The Board approved and disbursed that relatively small loan, for $13 million (SDR 8.9 million, or 15 percent of quota), in November 1995.[89]

Rwanda's financial needs were great, and the IMF's role in meeting those needs would be more symbolic than substantive. At a "round table" conference held in Geneva in January 1995, donor countries pledged $1.5 billion in aid, mostly in the form of grants. The IMF's $13 million loan was tiny in comparison, but it provided a clear signal of international support.

More important for the future of Rwanda's economy, the Fund quickly resumed its extensive technical assistance program. Rwanda had been one of the top 10 recipients of IMF technical assistance in the 1980s and early 1990s, and now the government and central bank—depleted of experienced and skilled personnel—needed it more than ever. In the course of 1995–96, the Fund sent advisory missions from all three technical assistance departments to help with monetary and balance of payments statistics and accounting, a wide variety of fiscal issues, and management of the foreign exchange market. The Fund also provided expert advisors to the treasury and the central bank on longer-term assignments.

As the economy began to return to normal in 1996 (real GDP rose by 13 percent that year), the Fund provided a continual flow of macroeconomic policy advice in the context of a staff-monitored program, while the staffs of the Fund and the World Bank worked together to help the authorities prepare a comprehensive development strategy. In 1997, the Fund resumed small-scale lending in the form of emergency post-conflict assistance totaling $21 million (SDR 14.9 million, or 25 percent of quota).

Finally, in 1998 Rwanda had recovered sufficient administrative capacity to present a full policy framework as the basis for a three-year ESAF arrangement. The Fund approved that request in June 1998, making $95 million potentially available on concessional terms. The arrangement was unusually large in relation to quota (120 percent) and was sufficiently large to make a financial difference to Rwanda, but its real

[89]The maximum loan that the Fund could offer through the CCFF was limited to 15 percent of quota by the access limits specified in paragraph 12 of the CCFF decision, as amended. A larger loan would have had to be accompanied by an arrangement in the upper credit tranches. Because CCFF loans were made from the Fund's general resources, the standard interest charge (then about 4.6 percent) applied rather than the 0.5 percent rate charged on concessional loans. In this case, the Fund established a special escrow account to receive the equivalent of about $2.2 million in donations from the Netherlands, Sweden, and the United States to reduce Rwanda's interest payments to the concessional rate; see "Rwanda—Establishment of an Administered Account at the Request of The Netherlands, Sweden, and the United States of America," EBS/95/167 (October 12, 1995).

importance was to enable the Paris Club to agree to generous terms for relieving Rwanda's burden of debt to bilateral creditors. It also put Rwanda on a path toward receiving multilateral debt relief under the HIPC Initiative.[90]

Malawi

The British colony known as Nyasaland, a small landlocked territory in southeastern Africa, became independent in 1964 under the new name of Malawi. It joined the IMF a year later and began borrowing in 1975 after the oil price increases of 1973–74 severely squeezed its balance of payments. Malawi borrowed continuously for the next 10 years.[91] Credit outstanding peaked in 1985 (Figure 14.5), after which the authorities had increasing difficulty carrying out the EFF-supported program. No further disbursements were made for two years. Lending resumed in 1988, but at a lower level that approximately compensated for repayments on the earlier loans. Because the new lending was mostly through the ESAF, it effectively rescheduled Malawi's debt to the Fund on more favorable financial terms (lower interest rates and longer repayment periods).

A second break in lending came in 1992, in the wake of growing political instability. Since the early 1960s, Malawi had been under single-party rule. Hastings Kamuzu Banda, who had been declared "President for Life" in 1971, led the country. Opposition to his rule and pressure for democratization boiled over in the early 1990s, forcing Banda to agree to a referendum. During the transition, economic policy was paralyzed, and international donor financing ceased. Nominally, the ESAF arrangement approved in 1988 remained in effect until 1994, but disbursements stopped in 1991. The referendum, held in June 1993, led to multiparty elections in May 1994 and to Banda's defeat. His loss cleared the way for a new constitution and renewal of international support.

To offer a quick response to this "smooth and successful historic transition to multiparty democracy," as the staff phrased it,[92] the Fund approved an eight-month stand-by arrangement in November 1994. This decision was a departure from then-current

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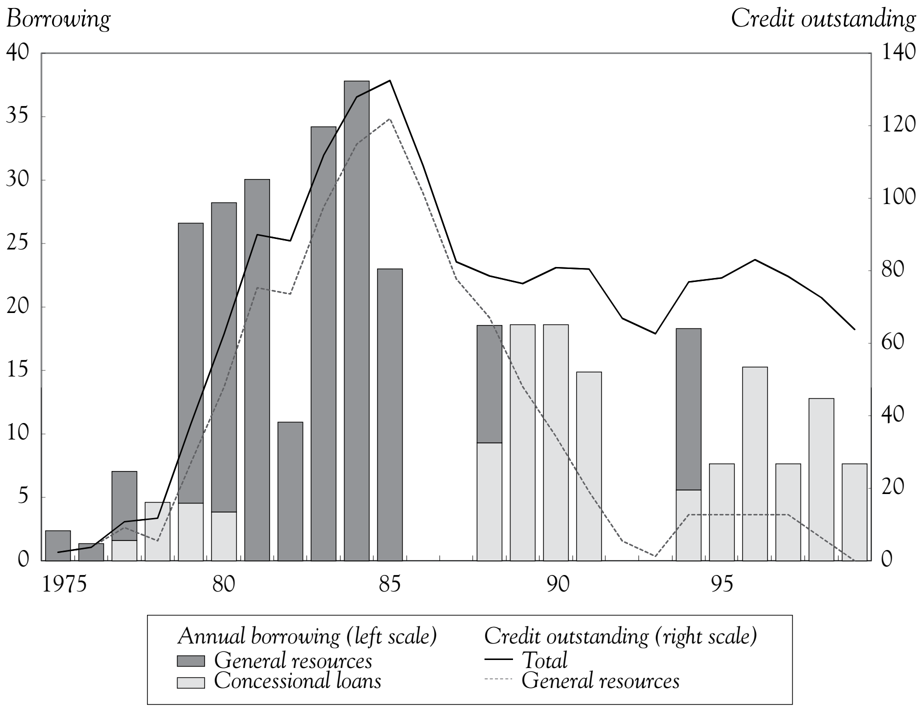
[90]Rwanda borrowed most of the money available under the ESAF arrangement despite increased tensions with the international community resulting from the government's involvement in a civil war in the Democratic Republic of the Congo, beginning shortly after the arrangement went into effect. Rwanda reached the completion point for HIPC relief in April 2005.

[91]The first loan to Malawi, in December 1975, was through the Oil Facility, to compensate for the effects of the 1973–74 increase in world oil prices. In 1977–80, Malawi borrowed from the Trust Fund, and in August 1979 it made a drawing under the CFF to compensate for a temporary drop in sugar and groundnut exports. The first stand-by arrangement was approved in October 1979. From that time on, Malawi had nearly continuous program engagement with the Fund, at least through 2009. For a review of Malawi's prolonged use of Fund resources, see "Malawi: Ex Post Assessment of Longer-Term Program Engagement," Country Report No. 04/389 (December 6, 2004); accessed at http://www.imf.org/external/pubs/cat/longres.cfm?sk=17885.0.

[92]"Malawi—Request for the Stand-By Arrangement and 1994 Article XIV Consultation," EBS/94/207 (October 26, 1994), p. 1.

Figure 14.5. Malawi: Use of Fund Credit, 1975–99
(In millions of SDRs, annual data)



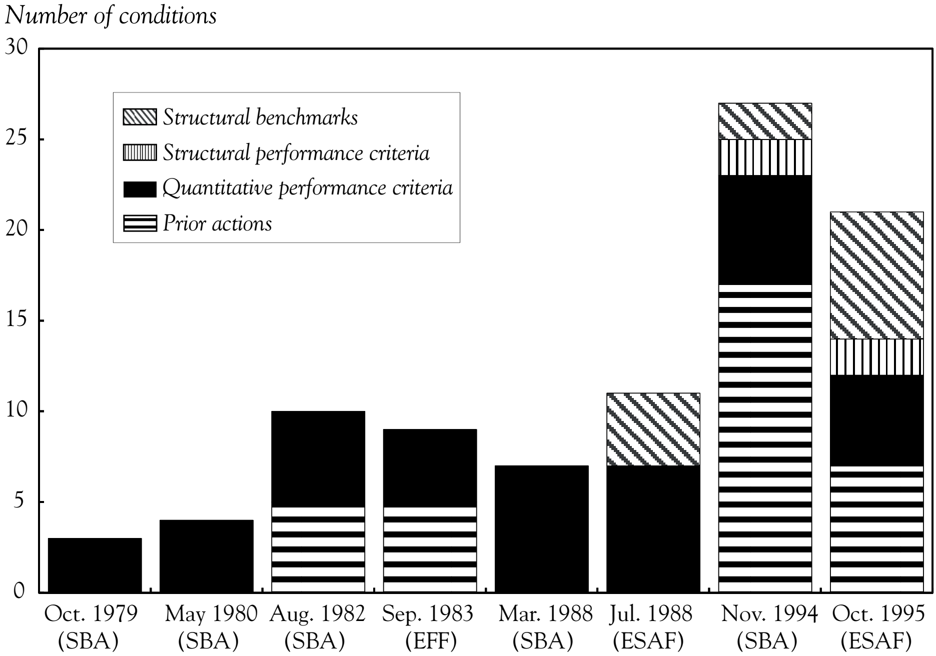
Source: IMF financial accounts.

standard practice in lending to low-income countries in that the arrangement was short term and nonconcessional. It was aimed specifically at providing quick support for the newly elected government; enabling a renewal of donor and multilateral financing from the World Bank, the European Union, and others; and laying the groundwork for a three-year ESAF arrangement as soon as the government could formulate and begin to carry out a comprehensive economic policy.[93]

Because the government was new and untested, the Fund required an unusually lengthy list of 17 actions to be completed prior to the Board discussion. Several of these actions, which the authorities carried out between June and November, were needed to initiate a shift to more-open financial policies and were fairly conventional IMF macroeconomic policy prescriptions. For example, the government eliminated requirements that exporters surrender a portion of foreign exchange receipts, tightened

[93]As noted in the discussion of lending to members of the CFA franc zone (p. 707), in 1994 the ESAF Trust had little money left for new lending.

Figure 14.6. Malawi: Conditions on IMF-Supported Programs, 1979–95



Source: IMF financial accounts.
Note: EFF = Extended Fund Facility; ESAF = Enhanced Structural Adjustment Facility; SBA = Stand-by arrangement. Counting conditions is partially arbitrary, and the guidelines and documentation have evolved over time. The numbers in this figure are broadly indicative.

monetary policy, and set up a more open system for issuing treasury bills. The list also included more-detailed structural measures, including issuing a "public notice about the removal of the export licensing requirement for groundnuts and beans" and establishing a "task force against customs fraud."[94]

From this point on, the Fund's conditions on lending to Malawi focused increasingly on structural reforms, though without lessening the importance attached to macroeconomic stabilization (Figure 14.6). Malawi had succeeded intermittently in getting the economy on a sound course, with sustainable fiscal and monetary policies, but it kept getting blown off that course by a combination of external shocks and weak public administration. The Fund concluded that reforming administrative practices sufficiently to enable the economy to withstand the shocks was the right path.[95] The new

[94]"Malawi—Request for the Stand-By Arrangement and 1994 Article XIV Consultation," EBS/94/207 (October 26, 1994), p. 37.

[95]See "Malawi: Medium-Term Country Strategy Brief," attachment to memorandum from Pierre Dhonte (Senior Advisor, African Department) to the Acting Managing Director (September 1, 1995); IMF archives, Accession No. 1998-0106-0006, OMD-AD, B11518, "Malawi 1995."

government shared that objective in general terms, but it found that carrying out that challenge was still beyond its capabilities.

The 1994–95 stand-by arrangement helped for several months, but the authorities had trouble sustaining the policy adjustments. The fiscal deficit and price inflation spun out of control in 1995, and the last drawing was not allowed. Again, the government made a great effort, and in 1996—the first year of a three-year ESAF arrangement—the inflation rate fell from 75 percent to less than 7 percent. Again, however, and notwithstanding significant progress in structural reforms, discipline soon weakened, inflationary financing of the fiscal deficit resumed, and the second half of the arrangement was a failure.

Why was the reform program in Malawi so troubled, and the effort so intermittent? The IMF's own assessment in large part blamed a lack of national ownership or commitment to good governance, especially at the highest political levels, and weak administrative capacity. However, the assessment also acknowledged that the programs of the 1990s may have been overly ambitious. Overcoming pervasive and systemic weaknesses in the way the authorities were trying to guide and control economic activity may have been the right long-run strategy, but it was unrealistic to expect a fledgling government to change the system wholesale in the span of a few years. The 2004 assessment concluded that any future program with Malawi "should focus on macroeconomic stabilization and structural measures directly related to it. Once the stabilization gains have been consolidated, the broader reform agenda can be tackled."[96]

Mozambique

Mozambique joined the IMF in 1984 while still suffering from internal and external conflicts that had devastated the country for two decades. A protracted war for independence from Portugal had ended successfully in 1975, but an even more devastating civil war had ensued. The one-party independent state had allied itself with the Soviet Union and adopted a socialist model with control of economic activity concentrated in the central government. In 1983, President Samora Machel renounced that model and initiated a reform movement that included IMF membership as part of an opening to the West. The Fund responded with a series of SAF loans from 1987 to 1990. During those years, despite the ongoing civil war, output growth averaged 7.5 percent while price inflation fell from an annual rate of 164 percent to 44 percent.

By 1990, the international community recognized that Mozambique still needed an exceptional degree of external support. Even after the rapid economic growth of the late 1980s, it remained one of the poorest and least-developed countries in the world, and it was saddled with a clearly unsustainable external debt burden. For the

[96]"Malawi: Ex Post Assessment of Longer-Term Program Engagement," Country Report No. 04/389 (December 6, 2004), pp. 29–33.

government's reform effort to have any chance of succeeding, donors and multilateral agencies would have to step up their assistance.

In June 1990, the Fund approved a three-year ESAF arrangement to succeed the much smaller and expiring SAF arrangement.[97] Two weeks later, the Paris Club agreed to reschedule most of Mozambique's debts to official bilateral creditors, to include long grace periods and maturities of up to 25 years.[98] Everyone involved knew these actions were only the beginning and much more assistance would be needed, but they also knew the government had to do its part, including by establishing peace.

The reform effort got off to a good beginning. In November 1990, in a highly symbolic recognition of its reorientation toward democracy and market economics, Mozambique adopted a new constitution and changed its official name from the "People's Republic" to the "Republic" of Mozambique. The new constitution put the country on a path toward multiparty elections, which would be held in 1994. Three months later, in February 1991, Camdessus paid a visit that included a meeting with the president, Joaquim Chissano. Although the civil war was still on, a partial peace accord had been signed, and the Managing Director was satisfied that the president and his government were committed to continuing the reform effort. Despite the problems, the ESAF-supported program was on course.

The 1990 Paris Club accord had made only a dent in Mozambique's external debt overhang, but it and the Fund's ESAF financing provided a catalyst for additional relief from others. Although the bulk of its debt was owed to official creditors and was contracted on concessional terms, the government also had more than $300 million in outstanding debts to commercial banks, including interest arrears. In December 1991, it was able to buy back 64 percent of that debt ($204 million) at a 94 percent discount, using funds provided by the World Bank's International Development Association special debt-reduction facility and bilateral contributions from four donor countries.[99]

Steady progress was not going to be achieved without great effort. Mozambique's economy depended heavily on agriculture, but the land was vulnerable to recurring droughts and floods. A severe drought hit southern Africa in the early 1990s, with devastating effects. By March 1992, the Fund staff estimated that 40 percent of the population of Mozambique was at risk of extreme dehydration or starvation.

[97]The SAF arrangement approved in 1987 totaled $37 million. It was gradually increased to $56 million, all of which was disbursed before the arrangement expired in June 1990. The successor arrangement totaled $112 million, later augmented to $186 million (SDR 130.5 million, or 155 percent of quota).

[98]"People's Republic of Mozambique—Report on External Debt Renegotiation," EBS/90/135 (July 20, 1990).

[99]For details, see "Republic of Mozambique—Staff Report for the Article IV Consultation and Mid-Term Review of the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility," EBS/92/81 (May 7, 1992), p. 19; and "Cost of Fund Credit—Principles of Burden Sharing—Concessionality in Fund Operations and Related Matters," SM/92/108 (June 1, 1992), pp. 76–77.

The Executive Board responded by approving an augmentation of the ESAF arrangement and by encouraging other official creditors to step up humanitarian and other assistance.[100]

The authorities succeeded remarkably well in carrying out their stabilization and reform program during a period when they were also coping with the drought, negotiating a peace accord and then demobilizing a large part of the army, and preparing for the country's first free elections. They lost control of the fiscal balance in 1994 and 1995 owing to these pressures, even though they made substantial cuts in nonessential spending. That left a large unfinanced payments gap, and the Fund temporarily stopped disbursing loans (Figure 14.7).[101]

The Fund continued to provide technical assistance to Mozambique throughout this difficult adjustment period in the mid-1990s. From 1993 through 1997, it sent six staff missions to help improve the national monetary and balance of payments statistics, seven missions of fiscal experts to advise on the customs and tax systems, and several consultation visits on strengthening the banking system and foreign exchange management. In addition, the IMF Institute conducted a financial programming course in the capital, Maputo, for local officials.[102]

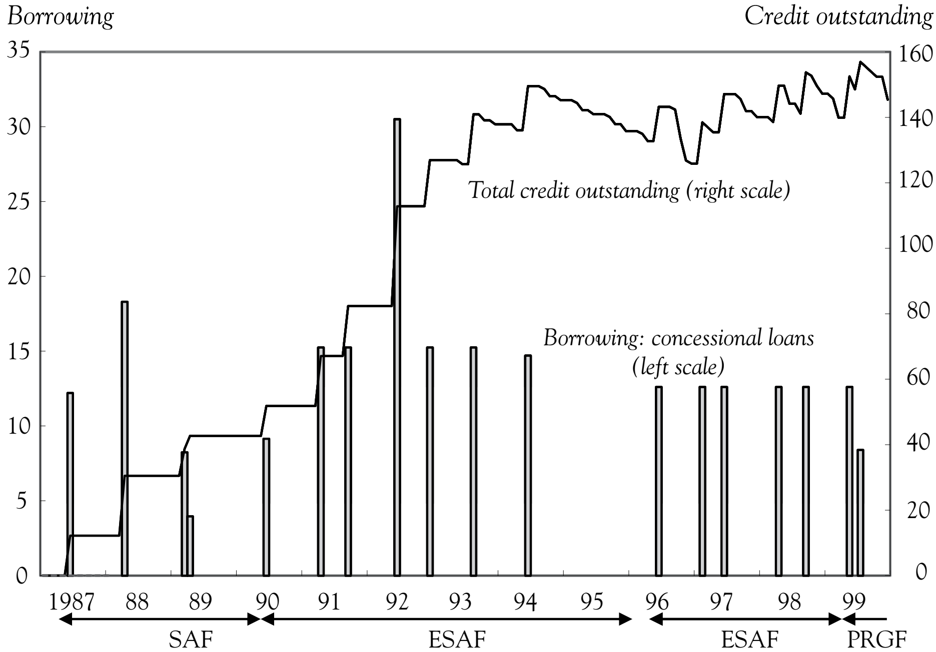
When Mozambique applied for a successor ESAF arrangement in 1996, its need for official assistance was undiminished. The drought of the early 1990s had been followed by widespread flooding caused by unusually heavy rainfall. With cropland and much of the transportation network under water, Mozambique was again unable to produce or market its output at normal levels. Moreover, the staff assessment of the situation acknowledged that the country still faced an unsustainable debt burden into the foreseeable future. Existing procedures, such as the Naples terms, then being applied by the Paris Club were grossly insufficient for this case—a poverty-stricken country that, even after relief from the Paris Club, would have to pay out 40 percent of its export receipts just to service its external debts. Because the HIPC Initiative was still pending, all the Fund could do directly to alleviate the debt burden was set a ceiling on nonconcessional borrowing as a condition for the ESAF arrangement, which was approved in June 1996. The staff report also called on the donor community to provide additional

[100]The augmentation was equivalent to 25 percent of quota, which was the standard amount that the Fund lent as quick-disbursing emergency disaster assistance at that time. Because the Fund was lending to Mozambique purely on concessional terms, the loan was treated as an augmentation of the existing arrangement rather than as a separate disaster-relief loan; see "Republic of Mozambique—Staff Report for the Article IV Consultation and Mid-Term Review of the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility," EBS/92/81, Suppl. 1 (May 29, 1992).

[101]To give the authorities time to correct the fiscal overruns, the Fund extended the 1990 ESAF arrangement from its original expiration date of end-May 1993 to the end of 1995. The last disbursement, however, was made in June 1994. The arrangement expired with just one scheduled disbursement for $22 million (SDR 14.7 million; 11 percent of the total commitment) not made.

[102]"Republic of Mozambique—Request for Arrangements Under the Enhanced Structural Adjustment Facility," EBS/96/80 (May 20, 1996), p. 53.

Figure 14.7. Mozambique: Use of Fund Credit, 1987–99
(In millions of SDRs, monthly data)



Source: International Financial Statistics.
Note: ESAF = Enhanced Structural Adjustment Facility; PRGF = Poverty Reduction and Growth Facility; SAF = Structural Adjustment Facility.

debt relief, noting that Mozambique would be a "prime candidate" for multilateral debt reduction once a system was in place.[103]

Mozambique implemented the 1996–99 ESAF-supported program effectively, and the economy turned in its best performance yet: output growth averaged more than 10 percent a year, while inflation fell from 48 percent in 1996 to 7 percent in 1997 and to 2 percent for the next two years. For the decade as a whole, Mozambique had one of the highest rates of economic growth in all of sub-Saharan Africa.

The major drag on the economy continued to be the debt overhang, which was increasingly concentrated in obligations to official multilateral institutions. In 1999, the Fund approved a third ESAF arrangement in association with the completion point for debt relief under the HIPC Initiative, as discussed in Chapter 13.

[103]The debt-service calculation was an average for the period 1996–2005; see "Republic of Mozambique—Request for Arrangements Under the Enhanced Structural Adjustment Facility," EBS/96/80 (May 20, 1996) pp. 9–10.

Mozambique thus became the fourth country to reach the HIPC completion point and begin receiving permanent relief from its multilateral debt.[104]

Postscript

In January 2000, Michel Camdessus was preparing to leave the IMF after 13 years as Managing Director. One of his first achievements in the job, in 1987, had been to convince donor countries to triple the IMF's resources for subsidized lending to low-income countries and create the Enhanced Structural Adjustment Facility. One of his last, in 1999, had been to replace that temporary lending window with a permanent Poverty Reduction and Growth Facility. Both of these initiatives had been aimed squarely at Africa in the hope of pulling its diverse economies more fully into the world of global trade and finance.

Many people, inside and outside the Fund, were disappointed that the world's premier monetary institution was devoting so much time, energy, and money to trying to help stabilize the economies of poor countries by giving them long-term loans on concessional terms. That the IMF should get out of the business of "development lending" had become a mantra for critics throughout the industrial world. Other critics, including many in Africa, were outraged that the Fund's lending had come with so many strings attached; that its insistence on financial and macroeconomic stability as a precondition for sustainable growth had, in their view, left these countries with too few resources to meet their needs for health, education, and the development of public infrastructure.

Camdessus rejected these criticisms. As expressed in the quotation at the head of this chapter, he believed that "the future of the world" lay in Africa. More to the point, he believed many of the problems keeping Africa from reaching its potential—monetary instability, fiscal excesses, lack of administrative capacity to design and carry out economic policies, and inefficient and corrupt financial oversight—were ones the IMF could and must help solve. Its attempts to do so had often failed, but as the 1990s became part of history, he could point to an increasing number of successes scattered around the continent.

Ever the optimist, Camdessus saw a half-full glass slowly being filled. The PRGF, he believed, was not just a slightly improved ESAF. It was a vehicle with which the IMF and its poorer members could work together to reduce the devastating poverty that so pervaded Africa. The HIPC Initiative, which had just been enhanced, was only one more step toward eliminating Africa's crushing burden of external debt, but it was keeping the process moving in the right direction. For the continent as a whole, per capita incomes had fallen slightly in the 1990s, as they had a decade earlier, but about

[104]For an analysis of Mozambique's reform agenda in the late 1990s and the early part of the following decade, see Clément and Peiris (2008).

half of the countries in Africa had achieved positive growth per capita, and more than half had better growth than in the 1980s. To be sure, the policy agenda was incomplete, and lasting results would take longer to materialize, but reasons for optimism could be found by those who were willing to look.

One group that shared Camdessus's optimism to a surprising degree, and that had come to respect his dedication to the cause of African economic growth, was the political leadership of Africa. More than the nongovernmental activists, they had seen firsthand the fruits of working with the IMF, and many of them had come to see Camdessus almost as "one of them," a man who could be trusted to share their goals and aspirations even as he pushed them onto new paths for reaching these goals. To cement both that personal relationship and that between the IMF and Africa, Camdessus decided to make one last trip to Africa as Managing Director. At his request, President Omar Bongo of Gabon invited heads of state and government from throughout Africa to attend a special summit meeting in Libreville. The primary purpose of the summit meeting was for Camdessus and his IMF colleagues to explain the significance for Africa of the new HIPC and PRGF facilities, but it was also intended as a way for Camdessus to say farewell and for the African leaders to express their appreciation. Senior officials from more than 30 countries, including nearly two dozen presidents and prime ministers, accepted Bongo's invitation to attend the meeting on January 18–19, 2000.

In an unusual move to raise the profile of the Fund's presence, the Managing Director was accompanied by two of his three deputies (Fischer and Eduardo Aninat) as well as Gondwe, Jack Boorman (Director, Policy Development and Review Department), and other senior staff. The occasion was nonetheless Camdessus's show. He used it to convey a relentlessly upbeat message about Africa—which was on the verge of a "renaissance"—and the role that the Fund was prepared to play, based on the summit's communiqué, which he promised would be "the bible for action for the IMF and the World Bank in the years to come."[105]

The African leaders at the summit were not quite that upbeat. In their communiqué, they focused more on the ills that still plagued the continent, from unemployment and illiteracy to the AIDS epidemic, and on the great need for more external assistance. At the close, they "paid high homage to Michel Camdessus, a great friend of Africa who has never yielded to Afro-pessimism, for his unwavering fight for African debt relief and poverty reduction."[106] In January 2000, whether that personal battle would continue on a broad institutional level under new IMF leadership and in a new century remained to be seen.

[105]"At economic summit, African leaders sign joint declaration pledging to fight poverty," *IMF Survey*, Vol. 29 (January 24, 2000), pp. 17–19. Also see Camdessus (2000).

[106]"At economic summit, African leaders sign joint declaration pledging to fight poverty," *IMF Survey*, Vol. 29 (January 24, 2000), p. 19.

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