ADJUSTEMENT UNDER CRISIS CONDITIONS IN AFRICA: IMF VIEWS AND THE AFRICAN MONETARY FUND CONCEPT

By

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Among the past few decades of Africa's economic development, none has proved as catastrophic and uncertain as the 1980s. Crisis has been imposed upon crisis in almost every country with inclement natural factors working to further deepen each one. In tandem with the real-world crisis, policy-makers also find the 1980s marked with an analytical emptiness so deep that what conventional wisdom there was on Africa's earlier economic performance is under critical appraisal.

In the re-assessment and the debates which inevitably ensue it is important to broadly separate the contributing factors to the crisis in the order of their sources in the macro-economy. The separation facilitates analytical progress and the contribution of new approaches specific to each problem area of the economic malaise.

This article concerns the long-running debate on the role of international financing agencies (particularly the IMF) and the conditionalities placed on external resources under their control or influence. With little common ground having been found in the debate, internal reflection among African monetary authorities has turned to the possibilities of establishing autonomous monetary and financial institutions with exclusive focus on the African problem. One such organ is an African Monetary Fund. In some circles, the idea is discussed as a means of pooling and using Africa's meagre financial resources in new ways and as a continental forum for new economic thinking on monetary and financial issues *(1)*. The primary question that arises is whether the African arguments in the debate as well as the new initiative, if carried through, offer new and distinctive possibilities in the financing of adjustment and the development process. This paper sets up the debate on IMF programms and conditionalities as a sounding board for proposing a number of new directions in the discussion of the African Monetary Fund (AfMF) idea. The plan of the paper is as follows.

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The first part gives a highlight of Africa's macroeconomic crisis as at the mid-point of 1980s. The second part deals briefly with the fundamental areas of analytical and policy contention on which IMF programs are judged to be inadequate in the African context. The third part presents a number of new concepts in lending and borrowing for macro-adjustment which the proposed AfMF could adopt for the African context. These ideas include new approaches to conditionality as well as the «facility-link» framework in which medium-to-long-term structural adjustment programs can be designed as continuums of short-run stabilization programs.

I. – THE MAKINGS OF THE CRISIS

There are at least three major standpoints from which the African crisis can be illustrated and from which the urgency for clear-headed action combining external assistance and changes in domestic policies can be appreciated. The evidence that the crisis has deepened in the 1980s overwhelms all the usual claims of the shabbiness of African data for statistical purposes. First the urgency of the situation is evident in the accelerating decline in Africa's output performance and a worsening in related key indicators. The decline itself seems to show a long-term trend. Second, for the first half of the 1980s in particular, the decline in output prospects has been super-imposed on a hardening of the external economic environment. A third related aspect of the crisis has been the relative decline in volume and terms of access for capital flows to African countries at a time when supportive trends in these flows have never been more essential for macro-adjustment.

Tables 1 and 2 summarize the three aspects of the crisis mainly using illustrative data for Sub-Saharan Africa and for Sub-Saharan African countries which are non-oil exporters. In the 1960s, output performance in African countries was higher and more respectable than it has been since that decade. Non-oil exporters led the way at the annual average growth rate of 4 % a year which was higher than the average for the group of thirty nine countries. Although this pattern was reversed by the first oil shock in the 1970s, with non-oil exporters showing a lower-than-average growth rate for the group, the rates were still commendable. However the 1980s have been decidedly catastrophic particularly when the negative rates of GDP growth are translated into the growth of per-capita GDP to show the impact of the high population growth rates. For example the annual average growth rate of per capita GDP deteriorated from 1.3 % in 1960s to – 3.3 % in 1982 (World Bank, 1984, p. 22). There is thus increasing poverty in a continent which is already poor.

An even more worrisome observation for the mid-eighties is that when the global recession of 1979 tapered in 1982 and the United-States led the recovery in the international economy, the usual signals for higher economic activity do not seem to have stimulated a reversal in the continuing deterioration of Africa's output performance (WAGACHA, 1984, p. 124, and ACMS, 1984). No agenda for action can thus avoid to take

Table 1: Key Macroeconomic Indices: Sub-Saharan Africa*

Index / Period	GDP*(1)*	Terms of trade *(2)*	Exports of goods & non-factor service *(3)*	Imports of goods & non-factor service *(3)*	Ressource balance*(3)*	External ressource flows (NET) & use of IMF credit (US $ million)		
						Official loans & credits	Private loans & credits	Use of IMF resources
1960–1970	3.8 (4.0)	1.8 (2.8)	24.0 (26.0)	25.0 (26.7)	-1.0 (-0.7)	–	–	–
1970–1975	–	–	25.7 (25.7)	25.3 (29.4)	0.3 (- 3.7)	–	–	–
1970–1980	3.6 (2.9)	10.2 (-0.4)	–	–	–	–	–	–
1975–1980	–	–	26.5 (23.7)	28.7 (31.2)	- 2.2 (- 7.4)	–	–	–
1979	–	–	–	–	–	3584 (3150)	2658 (1484)	1695 (1626)
1980	–	–	–	–	–	3926 (3541)	3375 (2098)	1956 (1921)
1981	- 1.0 (2.3)	- 0.1 (-10.3)	24.5 (21.0)	31.2 (31.7)	-6.7 (-10.7)	3465 (3123)	2471 (1345)	3411 (3394)
1982	- 0.2 (1.4)	- 4.6 (- 2.8)	17.2 (13.9)	24.8 (20.9)	- 7.1 (- 7.0)	3514 (3134)	1832 (589)	3981 (3970)
1983	- 0.7 (1.9)	–	–	–	–	–	–	–

Sources: World Bank: *Towards Sustained Development: A Joint Program for Sub-Saharan Africa, (*1984).

Notes: * *The figures in brackets are for all countries except oil exporters in the group. They exclude Nigeria, Cameroun, Congo, Angola and Gabon.*

(1) Annual average growth rate (per cent).

(2) Excludes Guinea, Guinea Bissau, Burundi, Zimbabwe, Swaziland, Gabon, Somalia, Lesotho, Botswana, for lack of data.

(3) Annual average as per cent of GDP.

(4) Net resource flows exclude official grants.

Table 2: Average terms of Access to Capital Flows for the African Countries 1970s–1980s

	1970	1977	1978	1979	1980	1981	1982
1. Maturity of debt Commitments (in years) of which:	27.6	21.2	18.7	17.6	19.1	16.8	15.2
Official creditors	30.0	38.1	37.6	22.4	24.8	22.3	22
Private creditors	10.0	9.1	8.6	8.7	8.8	8.3	7.8
2. Grace Period (in years) of which:	7.0	6.5	5.3	4.8	5.2	4.5	4.0
Official creditors	9.2	7.6	7.1	6.4	6.9	5.8	5.7
Private creditors	4.0	3.8	2.9	3.1	3.0	2.7	2.9
3. Grant element (in per cent) of which:	47.0	38.2	22.4	18.5	20.1	9.6	8.1
Official creditors	58.4	53.6	47.1	35.3	40.2	37.6	35.0
Private creditors	18.0	12.2	0.7	- 8.4	- 13.5	- 18.6	-20.0
4. Interest (in per cent) of which	3.9	4.5	6.8	8.8	8.6	11.1	13.4
Official creditors	3.0	3.9	4.5	5.1	4.5	5.3	6.1
Private creditors	5.2	7.8	10.3	12.0	12.9	14.4	14.8

Sources: World Bank: *World Debt Tables* (1983–84 edition).
UNCTAD, *Handbook of International Trade and Development Statistics*, various years, (UN. New York).

account of the essentially medium-to-long-term character which the deterioration in economic activity in African Countries has now assumed. The urgency for action in this direction can hardly be over-dramatized when the deterioration in per capita output of Sub-Saharan Africa – with the 1983 level falling 11 % below the 1980 level – is translated into reduced per capita food output. The deterioration in per capita food production, which has been sharpest in countries richly endowed in agricultural resources such as Sudan, Zambia, Tanzania and Nigeria, has called for massive food imports, in spite of which severe hunger and permanent impairment of children has been reported. (World Bank, 1984, p. 13). Furthermore the evidence shows that even taking account of the recent devastation of most of Africa by drought, the long-term per capita food production of Sub-Saharan Africa has been falling fairly sharply from the 1960s relatively to the performance of other major developing areas of the world. Thus adjustment programs will have little impact unless they are conceived within medium-to long-term perspectives involving increases in agricultural supplies.

The external economic environment is represented by movements in the terms of trade flows and the resource balance. The terms of trade improved for Sub-Saharan Africa in 1960s with non-oil exporters performing slightly better than oil exporters. For the 1970s the oil shock explains the sharp over-all improvement while the non-oil exporters suffered a decline. The figures for the 1980s show that if the global recession which began in 1979, worsened Sub-Saharan Africa's terms of trade in general the deterioration was sharper for the non-oil exporters. Although exports of goods and non-factor services as percent of GDP did not change substantially from the 1960s to 1981 there was a drastic change in 1982. A number of factors account for the decline in export performance. World trade and commodity prices have been stagnant for the past four years (A.C.M.S., 1984) and the prospects for two of Africa's major exportables, sugar and livestock, have been destroyed by pretectionist barriers in developed countries. In addition the world market shares of some key commodities in which Africa has always had a comparative advantage have been eroded since the 1970s; this is the case with oilseeds, tea, coffee, cotton and bananas. In contrast imports as percent of GDP have risen sharply particularly in the 1980s, with the result that the current account deficit has also risen sharply. Thus in any framework for action, Africa's trading opportunities and commodity structure will need some rethinking (ECA, 1984, p. 99). If it is ascertained that the catalytic effects of growth in industrial countries on economic development in African countries have changed then new concepts are needed for trade which is supportive of development. Some economists who foresaw the need for this re-thinking at the beginning of the 1980s (LEWIS, 1980) formed the view that developing countries could not influence their pace of growth in the long-run unless they increased trade among themselves.

Capital flows to African countries are represented by three important categories in Table I, for which data is provided since 1979. The categories are selected on the basis that they are debt-increasing while the two other resource flows not in Table I (i.e. Official grants and food aid) are not. Table 2 shows the deterioration in the terms of access to capital. In 1979, official loans and credits were the leading source of capital flows but stagnated after some improvement in 1980. The 1982 level was not only about unchanged from the 1979 amount but official sources had been over-taken by IMF resources which were about 50 % of official sources in 1979. With private loans and credits having fallen off dramatically from a peak of 3375 (2098) million dollars in 1980 to 1832 (589) million dollars in 1982 for Sub-Saharan Africa and non-oil exporting members of the group, respectively, it is clear that capital inflows to Africa have suffered a serious set back in the 1980s. However even the reduced flows have taken place in a climate of accelerating difficulties relating to the terms of access.

Table 2 outlines the deterioration in the terms of access for some years between 1970 and 1982. Average maturities and grace periods for debt commitments were approximately halved. The average grant element in loans fell sharply from 47 % to 8.1% while the percentage rates of interest rose from 3.9 to 13.4. The combined effects of the above developments have at least lowered the flexibility to adjust for African economies and also raised the external debt service.

A major implication of falling capital flows in the face of widening current account deficits such as shown in table 1 is that the burden of financing the deficits must increasingly fall on external reserves or import capcity must be reduced. Although the data is incomplete for 1983 and 1984, the available evidence is that import capacity has fallen sharply for African countries. The most important observation on falling import volumes for African countries in 1980s is not that the huge current account deficits ($ 14 billion in 1981 for non-oil exporting countries) have been eased slightly (to $ 13.2 in 1982 for the same group of countries) but that the reductions are a further phenomenon of binding constraints in the external environment with the consequences of aggravating already low or negative growth rates. Deeper analysis (IMF, 1983, p. 106) shows that import constraints in African countries have been the root of wide-spread under utilization of plant capacity and declining productivity and employment.

II. – IMF ECONOMICS IN THE AFRICAN SETTING

In the hey-day of the Bretton-Woods system two principal approaches were adopted in macro-adjustment, each assigned to a different set of actors in the domestic and world economic and financial scenes. Targets in economic development were pursued with long-term capital mobilization from domestic savings and, externally, with multilateral loans, bilateral loans, World Bank loans, loans from regional development banks, long-term loans from the financial markets, suppliers credits etc... A country faced with transitory payment difficulties involving an erosion of import capacity took adjustment measures combining foreign exchange reserves, including monetary gold, with short-term and medium-term loans from foreign central banks, commercial banks, foreign governments and, importantly, the IMF. There was thus a broad division between transitory shocks calling for balance of payments financing and long-term growth objectives calling for development financing. In this international financial order the central official players were the World Bank and the IMF which preoccupied themselves with project financing and stabilization programs, respectively.

As a source of liquidity to deal with transitory imbalances the IMF had a modest and uncontroversial role in Africa until about the beginning of the 1980s. Having been pre-empted by the Marshall Plan in Europe after the war the Fund's activities became prominent in Latin America for most of 1950s. The basic structure of lending was then fixed to the tranche disbursements approach based on a country's quota contributions. Except for the automatic reserve tranche, and the first credit tranche which carries low conditionality, all other tranche disbursements were subject to escallating obligations to observe economic measures agreed with the Fund. The entrenched lending practice was fixed on facility drawings structured to attract «low conditionality» when adjustment needs were low and «high conditionality» when the adjustment problem was more acute. The former conditionalities were intended to meet imbalances from «circumstances beyond a country's control» a definition which is itself highly contestable in developing countries. If domestic economic policy mis-alignment was perceived by the IMF, high conditionality facilities could be extended.

The above lending approach has undergone little modification in its application in Africa in the 1980s. Low conditionality drawings have been augmented with the Compensatory Financing Facility to enable primary commodity-producing members suffering from export short falls to draw an equivalent of up to 50 % of their quota in the Fund. The oil-facility operated from 1974–1976 also permitted drawings to cushion members from the first shock. Furthermore the Buffer Stock Facility was set up to facilitate members' contributions to official buffer stock arrangements. Since IMF quotas have been more than doubled from 1971 to the mid-eighties, low conditionality drawing rights have similarly doubled. However the increase is significantly lower than the increased value of the trade of poor countries (HELLEINER, 1983). In addition to a similar doubling of the three high-conditionality tranches, totaling approximately 75 % of a country's quota, this category of drawings has been increased via the Extended Financing Facility set up in 1974, the Enlarged Access Policy and the «high conditionality» component of the Compensatory Financing Facility. This expansion matches the increase in the value of trade for poor countries in the 1970s although conditional drawings have risen relatively to other drawings.

The above *quantitative* changes in the Fund's facilities came in the wake of a remarkable post-war expansion which seriously eroded the *analytical* and practical relevance of the Bretton Woods orthodoxy. First international bank lending expanded in the 1960s and 1970s dominating international capital movements. African countries gained relatively little from this expansion because of their typically low credit ratings. By the late 1970s, the major implication of the expansion for African countries was that capital flows in the region were being dominated by official loans (including official development assistance) and by the World Bank/IMF system. However, the practical basis of the latter's orthodox policy prescriptions had collapsed with the elimination of gold-dollar convertibility and the advent of generalized floating in 1973.

The acceleration in the share of the three sources can be explained in terms of a distributive bias in international capital markets which has excluded African countries from enjoying a «uniformity of treatment» relatively to other IMF members. According to one source (HELLEINER, 1983, p. 349) the disadvantages suffered by African countries from the lack of uniformity of treatment in the markets should elicit special considerations due to (i) differential access to fast-distributing short-term balance of payments financing (liquidity) (ii) differences in the size of shocks to the external account; and (iii) differential capacity to adjust. These disadvantages are quite apart from the traditional debate on the sharing of the burden of adjustment between surplus and deficit countries. However, the increased role of the World Bank/IMF system in African countries in the 1980s has not elicited new approaches to macro-adjustment. The two bodies have instead assumed their enhanced role in the macro-adjustment in Africa wearing the lens of the old orthodoxy *(2)*. The consequences, particularly in the case of the IMF, are all-important since the imprimatur of the institution is now virtually essential for *all* other capital flows to African countries, including the declining flows from private markets.

A second major change from post-war expansion affecting particularly the World Bank/IMF approaches was the break down in the functional separation of balance of payment needs from development financing needs. Particularly in the light of the impact of the recent prolonged recession, African countries face a task far greater than that encompassed in a standard IMF stabilization program where conditional funds are provided to sustain imports pending an absorption-oriented adjustment to regain sustainable levels of economic activity *(3)*. At the mid-point of a decade where GDP has fallen *every* year since 1980, the rates of growth to be regained in any African country can hardly be the negative ones within a one to two-year program. Growth should realistically be focused on the rates achieved in the decade 1970–1980. An essential step thus needs to be taken to integrate low-conditionality and high conditionality financing in such a way as to assure recovery and self-sustaining growth. Under an integrated adjustment approach, balance of payments needs would be simultaneously financed but reversed with concurrent medium-to-long-term programs aimed at increasing domestic supplies.

In the light of the hot debate on conditionality the IMF can always present the good points of its economic theory and tests of the efficacy of its programs in order to convert the critics. However among academic and research economists the good points will be increasingly harder to prove. Extensive theoretical details of the argument are not the purpose of this paper and we only briefly present some observations from Africa's stand-point *(4)*.

The theoretical basis of IMF stabilization programs as now understood by economists is the model exposed by POLAK (1957) and the exposition by the IMF (1977). The institution has frequently held that a uniform framework for macro-adjustment is not applied to every country and that programs are designed with targets and instruments specific to the country accepting the program. What seems to give this contention some truth is not the lack of adherence of Fund programs to the basic model cited above but rather the frequent inclusion of an array of other economic stipulations which are supportive of the programs only indirectly. As will be clear in the following analysis for example the exchange rate has only an indirect effect (through the price level and real balances) on the variables of the Fund model. However, an «understanding» with the Fund on the exchange rate, involving a devaluation, is now virtually an integral part of the standard program.

In the basic model a fairly well-defined relationship is perceived between money, the domestic price level and the balance of payments. In this relation, a central linkage is assigned to the equilibrium (or lack of it) between the stock demand and supply of money which becomes a critical determinant of the balance of payments. Broadly defined the stock supply of money (M^s) is given by the foreign-source component (R), equal to the domestic currency value of net foreign assets, and the domestic credit component of the monetary base (D). The demand for money (M^d) can be derived as a function of real income (Y) *(5)*. These relations can be summarized as:

$$M^s = R + D$$
$$M^d = f\,(Y)$$
$$M^s = M^d$$

The balance of payments B, can be derived as the rate of change in net foreign reserves,

$$B \equiv dR/dt = dM^d/dt - dD/dt$$

When a disturbance occurs in the stock supply and demand relation for money a key outcome is a balance of payments disequilibrium which can be dealt with by policies affecting the stock demand for money or the domestic credit or both. In the standard IMF program, there is no expectation of an appreciable increase in real income, Y, so that adjustment must involve a contraction in demand *(6)*. One way is to lower money balances, through a devaluation for example, which should induce a counterpart reduction in expenditures. This reduction affects three important macro-aggregates: consumption (C) investment (I) and government spending (G). From the expenditure approach to National income accounting, income, Y, may be expressed as,

$$Y = C + I + G + (X - M)$$

where X is exports and M imports. As is well known, national expenditure (E) in an open economy is defined as:

$$E = C + I + G$$

As is also well known, the rate of total national absorption of goods and services may exceed the value of domestic output by the excess of imports over exports. This is reflected in the relation

$$Y - E = X - M \text{ and}$$
$$B = X - M$$

where B is the balance of payments deficit ignoring capital flows.

Thus if an adjustment program does not anticipate an increase in real income the counterpart to a reduction in money balances must be an expenditure reduction affecting some or all three components of E, i.e. C, I and G. We discuss the possibilities of achieving the expenditure reductions (and a balance of payments improvement) via domestic credit reduction and a devaluation which is also expected to switch foreign and domestic spending to domestic goods.

(i) THE BALANCE OF PAYMENTS

The balance of payments as defined above is

$$B \equiv dR/dt = dM^d/dt - dD/dt.$$

In the above relation any policy action which sets off an excess demand for money balances, such as a devaluation, or lowers domestic credit, will improve the balance of payments. Consider the obstacles to the expected improvements from a domestic credit reduction in an African country *(7)*; we present but a few counter-examples of which there are analytically many.

First, if part of the output of the export sector is marked by fixed co-efficients between imported inputs and domestic inputs and is constrained by tighter credit to buy imported raw materials, this ensures that the balance of payments will worsen as the credit squeeze reduces real income. Second, if the production of established import substitution firms is constrained by credit, there may similarly be a fall in income worsening the balance of payments. Third, if the rate of substitution of non-traded goods for traded goods is high and there is a credit-constrained lack of expansion in the non-traded goods sector, then the balance of payments position would unambiguously improve with a credit *expansion* in that sector rather than a contraction. Fourthly, even if the above matters were taken into account, there is a potentially serious problem concerning measurement in setting a fixed numerical target for domestic credit expansion in African countries. We demonstrate the issue briefly.

In African countries there are numerous economic activities which yield income but pass unmeasured in national income statistics. However, many of the activities are fully monetized. The size of these activities which are not captured in the national accounts would tend to make the Fund's targets in domestic credit expansion rather lower than the desired rates of expansion. At worst there can be serious underestimation of the following order :

First define the demand for real money balances as M^d/P where M^d is as defined earlier and P is the domestic price level. Then:

$$\frac{M^d}{P} = f(Y)$$

which can be transformed in terms of rates of growth as;

$$\frac{\dot{M}^d}{M^d} - \frac{\dot{P}}{P} = n_Y \frac{\dot{Y}}{Y}$$

The dots represent $d(\cdot)/dt$ and n_Y is the (positive) real income elasticity of demand for real balances. From the above equation, the unadjusted growth rate in the nominal demand for money can be expressed as,

$$\frac{\dot{M}^d}{M^d} = \frac{\dot{P}}{P} + n_Y \frac{\dot{Y}}{Y}$$

Supposing now that there is a significant unrecorded but monetized real income amounting to y. The equation for desired real money balances M^d/P becomes,

$$\frac{M^{d*}}{P} = f(Y, y)$$

which can similarly be transformed in terms of rates of growth as,

$$\frac{\dot{M}^{d*}}{M^d} - \frac{\dot{P}}{P} = n_Y \frac{\dot{Y}}{Y} + n_y \frac{\dot{y}}{y}$$

where n_y is the (positive) real unrecorded-income elasticity of demand for real balances. The desired growth rate in the demand for nominal money balances can now be expressed as,

$$\frac{\dot{M}^{d*}}{M^d} = \frac{\dot{P}}{P} + n_Y \frac{\dot{Y}}{Y} + n_y \frac{\dot{y}}{y}$$

The supply of money M^s is defined as equal to the product of the stock of high-powered money (or the monetary base), H and the money multiplier, m, i.e. $M^s = mH$
where H equals R + D in the text. Assuming a constant money multiplier and converting the money supply equation into rates of growth we obtain,

$$\frac{\dot{M}^S}{M^S} = \alpha\frac{\dot{R}}{R} + (1-\alpha)\frac{\dot{D}}{D}$$

where $\alpha = R/H$ and $(1-\alpha) = D/H$

Now a stabilization program may be drawn up for a country with a balance of payments deficit so that a tightening of money supply growth rate is achieved by setting a ceiling on the growth rate of domestic credit to government and to the private sector. We can show that a stabilization program which relies on the unadjusted growth rate target for the nominal demand for money will underestimate the desired demand for credit and will reduce the rate of adjustment to the balance of payments disequilibrium. If we assume that the program attempts to match the growth rate of demand for money with the growth rate of the supply of money then we can either have $\dot{M}^d/M^d = \dot{M}^s/M^s$ or $\dot{M}^{d*}/M^{d*} = \dot{M}^s/M^s$.
Substituting the relevant equations and rearranging we thus have a domestic credit growth rate of either;

$$\frac{\dot{D}}{D} = \frac{1}{1-\alpha}\left(\frac{\dot{P}}{P} + ny\frac{\dot{Y}}{Y}\right) - \frac{\alpha}{1-\alpha}\frac{\dot{R}}{R} \quad \text{OR}$$

$$\frac{\dot{D}}{D} = \frac{1}{1-\alpha}\left(\frac{\dot{P}}{P} + ny\frac{\dot{Y}}{Y} + ny\frac{\dot{y}}{y}\right) - \frac{\alpha}{1-\alpha}\frac{\dot{R}}{R}$$

Subtracting the second of the above two equations from the first, it is clear that a stabilization program which targets the rate of domestic credit expansion on the unadjusted rate of growth in the demand for money will underestimate the desired credit expansion by an amount equal to the following expression;

$$ny\frac{\dot{y}}{y} \times \frac{1}{1-\alpha}$$

Similarly the above equations may be expressed in terms of the key balance of payments relationship showing the rate of change in net foreign reserves;

$$\frac{\dot{R}}{R} = \frac{1}{-}\left(\frac{\dot{P}}{P} + nY\frac{\dot{Y}}{Y}\right) - \frac{1-\alpha}{\alpha}\frac{\dot{D}}{D} \quad \text{OR}$$

$$\frac{\dot{R}}{R} = \frac{1}{\alpha}\left(\frac{\dot{P}}{P} + nY\frac{\dot{Y}}{Y} + ny\frac{\dot{y}}{y}\right) - \frac{1-\alpha}{\alpha}\frac{\dot{D}}{D}$$

The above equations illustrate mainly three outcomes. First, the growth in unrecorded but monetized real income improves the balance of payments. Second the greater the real unrecorded-income elasticity of demand for money the greater the rate of improvement in the balance of payments from the growth of that income. Third if impediments, such as credit constraints, rule out the above growth in real unrecorded-income, the rate of adjustment to a balance of payments disequilibrium is reduced by an amount equal to the expression :

$$n_y \frac{\dot{y}}{y} \times \frac{1}{\alpha}$$

(ii) EXCHANGE RATE VARIATION

One of the most controversial tools of Fund adjustment programs is devaluation which, in the past few years, has featured in the adjustment programs for Botswana, Egypt, Ghana, Kenya, Madagascar, Malawi, Mauritius, Morocco, Mauritania, Sierra Leone, Sudan, Somalia, Uganda, Tanzania, Zaire, Zambia and Zimbabwe. The analytical controversy begins with the observation that the exchange rate is not a variable of the simple IMF model presented above, so that any expected effects of a devaluation can only come about via the impact of the exchange rate on at least one of the variables of the model. In this context the exchange rate is only a complementary tool in an adjustment program whose effects take two main channels.

The first channel is the real-balance effect of a devaluation. The correction of a balance of payments deficit through this channel takes place not via any individual components such as the current account, but via an expected improvement in reserves. The payments position is viewed in terms of changes «from the bottom up». The devaluation, by changing the price of foreign exchange, reduces real balances. Since the demand for money is exogenously determined, the fall creates an excess demand for real balances which is translated into a fall in national absorption as described earlier. The outcome is a payments surplus, a vehicle through which the excess demand for money is eliminated. In this channel devaluation thus brings only transitory effects by raising the price level *(8)*.

An entirely different channel is that in which an economy exploits the devaluation-induced price competitiveness of exports in conjunction with a reduction in imports. Here a country's terms of trade are deliberately worsened by policy action in order to achieve an expenditure-switching effect favouring the spending on domestic output by both residents and foreigners. The balance of payments improvement takes place via either the expansion of exports and falling imports or an increase in the relative price of traded goods within the traded goods/non-traded goods model. In the latter model the relative-price change induces an investment mix favouring the production of traded goods thus expanding exports and import-competing goods; the consumption mix favours non-traded goods, leading to a fall in imports and a reduction in the domestic consumption of exportables.

In terms of the first channel, the real-balance effect, the excess stock demand for money created by a devaluation is expected to be eliminated by an inflow of funds from abroad. The inflow is expected from a surplus on commodity trade or on the service account, direct investments by foreigners or the flow of private long-term or short-term portfolio investments. In African countries it is the typical case that the negotiations for a stabilization program are preceded by severe *reverse* trends in all the above flows which can not be easily changed during a standard program period. This transmission channel thus looks implausible.

Much of the discussion of the expected effects of a devaluation in African countries has been conducted within the framework of the second channel of transmission. The over-riding question is whether exports expand enough in conjunction with an imports reduction to improve the balance of payment via the expenditure-switching and reduction effects. There is much convincing evidence that the output of Africa's exportables, mainly primary commodities, is inelastic and insensitive in the short-run to export price changes *(9)*. Furthermore, the Fund's expectation that an export-led turn-around in the balance of payments can take place during a stabilization period would seem to run counter to one of the best – documented empirical findings in international trade (for example in a seminal work by HOUTHAKKER and MAGEE (1969) that short-run elasticities are much lower than long-run elasticities.

The above arguments on the limitations of devaluation in the adjustment mechanism do not provide the critics with reasons for doing nothing when there are persistent and excessive price distortions as a result of domestic policy mis-alignments. Such distortions may imply that domestic costs and relative prices create competitive disadvantages for exports. A persistent currency over-valuation for example lowers the domestic costs for imported input users while lowering the incomes and incentives of the export sector especially where the world price is given. Apart from inducing capital-intensity and balance of payments pressure, the resulting price distortions may attract co-operating factors such as labor, to the relatively capital-intensive sector in search of cost and profit advantages. In the presence of limited national markets for import-competing goods, the general outcome may be excess capacity in both the export and industrial sectors. When these distortions exacerbate balance of payments pressures the dividends from a devaluation can be substantial. The devaluation – induced higher domestic-currency prices of exports, together with the lower real wage for co-operating factors such as labor, will induce export expansion while higher import prices will induce greater efficiency in the industrial sector.

III. – CONDITIONALITIES, FACILITIES AND THE AFRICAN MONETARY FUND CONCEPT

If the creation of an African Monetary Fund were to be pursued as a long-term goal, in what manner could the institution operate to ameliorate the special problems of African countries described in part I of this paper? How are the impediments faced by African countries in the international adjustment of the IMF type to be ameliorated? First it would not be desirable and the resources would not be forthcoming for the Fund to set up as an alternative to other financing agencies in Africa. A large degree of co-operation and influence with existing agencies would be desirable in order to share in professional experience, research, co-financing of programs and consultations on new approaches to the African problem. Second in the light of the debate on the adjustment problem in African countries the Fund would need to take a lead in permanent research on effective approaches and study of the problem among its members in order to facilitate monitoring and appropriate timing of applications for assistance. The economic scenario depicted in part I of this paper suggests that new approaches should be evolved which focus on:

- the recovery of African economies from the current decline;
- enhancement of capital flows;
- strengthening and restructuring of production and export activities in order to enhance the capacity to adjust to a changing external economic environment;
- enhancement of domestic supply capabilities as a component of integrated adjustment programs in which persistent balance of payments pressures are reversed;
- promotion of co-operation and intra-African trade.

This section is divided into two parts: one is on the types of conditionalities which could be attached to lending with the above tasks in mind and the last part is on potential facilities which could be set up to finance adjustment.

1) CONDITIONALITIES

It is useful to begin with a recapitulation on the concept of conditionality in order to clarify what the issues are and are not about. For example the notion that an African Monetary Fund could have conditionalities attached to its lending indicates that the choice to be made is not between unconditional and conditional financing. Conditionalities are a necessary and integral part of financing; at the national level the issues would concern the structure and policy requirements of conditionalities: What is the economic logic of «low» and «high» conditionality lending in an African setting and would this partition be desirable for the AfMF? What are the possibilities for linking the provision of short-run liquidity with drawings from medium-to-long-run facilities in order to promote self-sufficiency and reverse the factors causing persistent liquidity crisis? How would AfMF financing be related to other sources of financing and in what ways would the new Fund complement other financing institutions?

At the continental level the primary question on conditionalities concerns the channels whereby they would enhance co-operation among African countries; how could conditionalities be designed to support intra-African trade, intra-African currency convertibility, harmonization of economic policies and practices, regional self-sufficiency etc?

In the IMF tradition, conditionalities are defined under three broad headings; (a) conditions governing the circumstances of access to Fund drawings, (b) conditions governing the duration of the use of Fund resources including arrangements for restitution and (c) conditions governing the interim economic policy measures, performance criteria and the level of stringency with which adherence is required. These are useful classifications, aspects of which could be adopted in the AfMF. However, an African institution would need to incorporate a number of general conditions forming the philosophical underpinning of all financing in Africa's special economic problem. It is with these general concerns that we begin a discussion of possible approaches to conditionalities and facilities for an African Monetary Fund.

a) GENERAL CONDITIONALITIES

General conditionalities as conceived below do not imply that every facility drawing by a member of the Fund would require measurable compliance. What is implied here is a set of fundamental policy guidelines which would be voluntarily accepted as governing the long-term operations and orientation of the Fund. Six sets of such policy guidelines are discussed below:

- the guidelines on the economic and financial mandates of the Fund;
- the guidelines on a concept we term «facility-link»;
- the guidelines on the prioritization of intra-African trade in the placement of procurement contracts financed from AfMF facilities;
- the guidelines on the financing of net-debtor positions within regional clearing houses;
- the guidelines on guarantees for third-party loans;
- the guidelines on the ultimate creation of a common monetary unit within the Fund to promote both reserve-creation and convertibility.

1./ The Guidelines on the Economic and Financial Mandates of the Fund

The purpose of defining general conditionalities under the above heading would be to commit members to the scope of macro-economic policy actions which can be taken in conjunction with lending to effect adjustment in measurable ways. For example it could be explicitly agreed by members that the path of adjustment involves policy action and compliance in at least some of the following areas of macro-economic behaviour:

- Monetary and fiscal policy;
- Exchange rate policy;
- Commercial policy-including exchange controls, trade restrictions, tariff and non-tariff barriers;
- Domestic pricing policy;
- Organization and policy support for the export sector;
- Domestic food policy.

The above delineation of areas, for policy action and compliance would be important in several ways. First it would give some definition to the Fund's mandate on program-planning, monitoring, evaluation, research and advisory services. Second it would facilitate the harmonization of economic and commercial policies where increased divergence would otherwise undermine the objectives of the Fund. For example if intra-African trade expansion took place under increasingly divergent practices on exchange controls, it would not be unlikely for members whose policies were liberal to attract capital and possibly also become staging points for capital exports out of the continent.

A third factor would be the need to facilitate the accumulation of relevant skills in the study, research, and design of adjustment programs. This could be an important aspect of the Fund's operations in the light of the hot debate on the nature of the adjustment problem in African countries. Apart from developing permanent technical, advisory and monitoring services to back up country programs, the study and research functions would prepare the Fund for participation and intervention in the debate on international monetary reforms on behalf of the continent. For some of its research activities, the Fund could collaborate with other institutions, (such as the IMF and the World Bank) experts from member countries and external experts with special knowledge of the adjustment problem in African countries.

Fourthly the development of professional competence in the forementioned areas of the macroeconomy would prepare the Fund for the cofinancing of adjustment programs with other international institutions whose indicators of performance are designed from a similar policy-set.

2./ The Guidelines on the Facility-Link Approach of the Fund:

The facility link proposal is based on a frequent observation in the external sectors of African countries; a country's export earnings, import-purchasing power for essential commodities such as food and raw materials, and debt servicing, become dependent on two or three principal exportables such as tea, cotton, copper, cocoa, oil, etc. Over time sectoral maladjustments leave some resources, such as in agricultural food production, highly under-utilised or mismanaged. When exogenous shocks reduce export earnings, as in the case of a collapse in world prices of the commodities, permanent loss of market shares or a technologically-induced erosion in world demand, a country begins to face balance of payments pressures and becomes a recurrent borrower to finance food and raw-material imports while the sectoral maladjustments persist. No sequence of single short-run adjustment programs extending the financing of imports can offer a lasting solution in this context unless designed to run concurrently with medium-to-long-term structural adjustment programs aimed at increasing domestic supplies and restructuring the export base. A two-phase approach to adjustment would thus be justified in which a country may be advised to accept two programs. In the first phase balance of payments support would be initiated jointly with drawings from a medium-to-long-term facility. The second phase comes after a gestation period of financing and monitoring the latter facility and is marked by permanent increases in domestic supplies and a restructuring of the export base. This would reverse the pressures to borrow for short-run adjustment while enhancing the capacity of the economy to adjust to changes in the external economic environment. Similar benefits from a facility-link could apply to countries which discover a new resource. Exploitation may be constrained by lack of the initial foreign exchange outlays. Short-term balance of payments assistance could be extended during a gestation period when a medium-to-long-term facility is extended to realize export earnings, repay debts and enjoy an export-led permanent increase in incomes and domestic supplies. The general conditionality under the facility-link concept would commit members to adhere to facility-link programs when they are deemed feasible in consultations with the Fund.

3./ The Guidelines on the prioritization of intra-African Trade in the Placement of Procurement Contracts Financed by AfMF Facilities.

In order to enhance intra-African trade and minimize the global African debt impacts of AfMF facilities members would observe a general guideline on import-sources. To the extent that there is import-content associated with the use of AfMF resources, including co-financing and loan guarantees, priority in procurement contracts would be given to markets in African countries and prospective availabilities in African markets would be part of the applications. For imports which must be procured outside African markets (taking account of prices, quality, etc.) priority would be given to the markets of countries which support AfMF with capital subscriptions, co-financing, or loan guarantee arrangements.

4./ The Guidelines on the Financing of Net-debtor Positions, with Regional Clearing houses

A number of clearing-house arrangements have now emerged on the continent: The Clearing House of the Preferential Trade Area for Eastern and Southern Africa, the West African Clearing House and the Central African Clearing House are already operational. These clearing houses facilitate intra-African trade, regional self-sufficiency and supply capabilities. They also impart a degree of convertibility among African currencies. In recent experience balance of payments pressures-implied by falling terms of trade, export-earnings short-falls, high rates of interest on debt and food importation requirements – have tended to coincide with difficulties in meeting the settlement requirements of Clearing House mechanisms. This outcome is to be expected since settlements call for reserves. The problem is already serious in the West African Clearing House where the BCEAO group of countries have fallen persistently into net creditor positions while a high proportion of the payments tend to be made by Nigeria *(10)*.

While settlement delays are in the general class of short-run balance of payments pressures they merit special attention from the AfMF because their financing would support the expansion of a particular set of transactions which relate to intra-African trade; since these transactions are foreign exchange-conserving they counter-act Africa's payments pressures with the rest of the world. The crucial element of collaboration and intervention between the AfMF and the Clearing Houses would seem to be that while the latter are mandated to facilitate transactions and declare settlement balances, they have no mandates to finance destabilizing settlement delays which could themselves destroy the clearing arrangements; nor can they monitor economic policy and advise on adjustment mechanisms to remove obstacles to intra-African trade and further settlement delays. These are functions which the AfMF would be extremely well-placed to fulfil in conjunction with a facility for Clearing House members who face the prospects of being declared in default.

The general conditionality under this heading would require agreement that prospective default cases within the Clearing House mechanisms would be financed under a special facility with conditionalities attached to the disbursements.

5/ The Guideline on Guarantees for Third-Party Loans

The guideline on loan guarantees would be based on the recognition that AfMF resources will be modest in relation to financing needs. The AfMF would need to seek external sources for co-financing or arrange third-party loan guarantees for members. The general conditionality needed under this heading would require that the AfMF economic and financial mandates, including other attached conditionalities would apply to these resources.

6/ The Guidelines on the Creation of an African Monetary Unit

The guideline on the African Monetary Unit would require members to agree on the pursuit of an objective by AfMF to create a monetary unit which would eventually feature in facility drawings and restitution. Such a unit may take the form of an African Drawings Right (ADR) which would be created and distributed among members in order to supplement AfMF's reserve assets on a permanent basis. The reserve certificates could eventually be authorized for official use in the transactions of Clearing Houses, Development Banks, etc. General conditionalities under this heading would create an obligation on the members to accept the reserve certificates and pay convertible currencies or vice versa when the unit becomes technically feasible.

b) CONDITIONALITIES ON THE ECONOMIC AND FINANCIAL CIRCUMSTANCES OF A DRAWING FROM AfMF

There are two important considerations under the above heading for conditionalities: eligibility and resource availabilities from the respective facilities.

1/ Eligibility of a Member to draw from a Facility

This could be determined under a set of relevant criteria:

- the applying member would have acceeded to AfMF membership for a specified period of time (six months for example);
- the level of net foreign reserves and deterioration prior to the application would be examined to determine the existence of foreign exchange constraints.

2./ Resource availabilities from AfMF Facilities

In a departure from the quota-based system of availability of IMF facilities, the AfMF may begin by allocating a basic maximum drawing available from each facility to *any* member. From that figure the *actual* drawing allocated to a member could be determined under a scoring system using the following weights:

- Quota Contribution of member as a proportion of total contributions;
- GDP per Capita;
- Expected ex-post effects on domestic self-sufficiency (related to medium-to-long-run-facilities);
- Expected ex-post effects on intra-African trade and regional supply capabilities;
- Member's credit rating in external capital markets and ratio of private capital flows to GDP;
- the relation of application to outstanding loan positions with AfMF, other international institutions (such as IMF and the World Bank) and private markets.

c) CONDITIONALITIES ON RESTITUTION INCLUDING SERVICE CHARGES

AfMF conditionalities under the above heading would be of key importance for the protection of the institution's credibility as well as international credit ratings. Furthermore it would be necessary to create safeguards guaranteeing the revolving character of resources which AfMF would hold as a custodian for it's members. Initially the AfMF may need to establish market-related rates of interest and other charges. However as the institution evolves the opportunities for opening an interest-rate subsidization account for members facing special economic difficulties (such as the least-developed countries) should be examined.

d) CONDITIONALITIES ON MACRO-ECONOMIC POLICY AND PERFORMANCE

A number of conditionalities could be monitored under this heading particularly in conjunction with medium-to-long-term facility drawings. The targets and instruments would not simply be designed for each program but would be part of the permanent monitoring and policy advisory services of member countries. A primary policy stance on performance would be to achieve increased domestic supply capabalities with each AfMF facility drawing. Targets could be designed as ranges while instruments would similarly be given some flexibility.

(i) Possible macro-targets
- increased capacity utilization;
- higher growth rates;
- lower current account deficit to GDP ratio;
- lower inflation rates;
- higher domestic commodity supplies;
- improvement in the supplies and structure of the export sector

(ii) Possible macro-instruments :
- domestic credit
- budget deficit to GDP ratio
- the rate of interest
- export incentives

2. *POSSIBLE AfMF FACILITIES*

(a) Short-Term Facilities

i) The AfMF Food Financing Facility (FFF)

The Food Financing Facility could be conceived as a mechanism to finance unanticipated food importation requirements including shortfalls arising from an escalation in the import prices of basic cereals. Unlike other existing financing channels for cereal imports such as the IMF's Compensatory Financing Facility, the FFF would be operated to give long-term priority to the financing of cereal imports from African markets thus promoting regional food sufficiency. Since the food trade (admittedly low at present levels) would be expected to rise within clearing-house transactions, the facility could eventually be extended to members only under the condition that the cereal imports are channelled through the relevant clearing houses. In the interim, any imports not supplied from African markets could be authorised from foreign countries which support the AfMF with subscriptions, guaranteed loans to members, or co-financing. The facility would be repayable in 3 to 5 years. As discussed under general conditionalities the Food Facility could provide a basis for the facility-link approach such that drawings would be extended concurrently with a medium-to-long-term facility for increasing domestic food supplies. Among the guiding rules on applications and disbursements could be the following.

- AfMF would consider the eligibility and availability criteria of the last section;
- the domestic food import requirements should be related to exogenous factors beyond a member's control and should coincide with a weak position in foreign-exchange reserves;
- if a facility-link approach is considered possible in consultations with AfMF, a country would be expected to present a country food-policy report and an application under the medium-to-long-term facility drawings; the application would propose ameliorating measures in domestic food security, production, distribution, pricing, trade restrictions and nutrition education;
- when feasible, loan guarantees would be arranged and accepted by the applying member as described in the last section.

ii) The AfMF Special Current Account Financing Facility (CAFF)

A large number of factors explaining the balance of payments difficulties of African Countries originate in shocks within the current account. Disruption in export earnings from goods and services may arise from natural factors, unanticipated collapsing in of commodity prices, the sudden erection of tariff and non-tariff barriers in export markets and cut-backs in earnings from workers' remittances and tourism. Reductions may also take place in private and official unrequitted transfers from circumstances entirely beyond the control of policy-makers. Import price shocks usually provoke not only a deterioration in the terms of trade but an imports – constrained contraction in industrial production. The only autonomous policy action available to policy-makers is the financing of the current account deficits with reserves which can be depleted rapidly. As discussed in the first section of this paper, financing channels such as capital flows and borrowing entail special problems of access for African countries. The special current-account financing facility would be designed to smooth the disruptive effects of the above unanticipated shocks and to maintain imports-related economic activity over a short-run adjustment period. Repayment would be expected from 3 to 5 years and the facility could be designed as part of a facility-link approach such that drawings would be extended concurrently with a medium-to-long-term facility for increasing domestic food supplies. Among the guiding rules on applications and disbursement would be the following:

- AfMF would consider the eligibility and availability criteria of the last section;
- export earnings short-falls would be determined to have occured if the average earnings for a twelve-month period preceeding the application fall below the average earnings over a three-year period prior to the application;
- the shocks from the import markets eligible for AfMF assistance would be those affecting the availability of output-related intermediate and capital goods. The facility would in any case be used to support a country's development plan by maintaining the availability to income-generating imports;
- the priority to supply the import requirements of the facility would be given to African markets and to markets of foreign countries subscribing to the AfMF, participating in co-financing or according guaranteed loans to AfMF members.
- The applying country would submit a report to AfMF (for the purposes of a decision by the governing body) outlining the need for the facility drawing and the proposed use of the financing in adjusting to the current account shocks;
- where feasible loan guarantees would be arranged and accepted by the applying member as described in the last section.

iii) The AfMF Special Intra-African Trade Financing Facility (IATFF)

The Special Intra-African Trade Financing Facility could be designed initially as a fall-back payments mechanism in support of regional clearing houses and bilateral payments arrangements. Under the facility a country facing serious foreign exchange constraints and the prospect of default in settlements within the regional clearing house could apply for support. The AfMF could operate the facility on the same theoretical basis as a payments union as follows: in the first stage, the AfMF would set up up a special convertible currency account to facilitate settlements and also to guarantee against default by any member. The liquidity of the account could be enhanced by efforts to attract interest-bearing deposits from individual Fund members, donor countries of the DAC, major commercial banks in Africa and African financial institutions. In order to guarantee uniformity of access to the facility among clearing houses, ceilings could be established on the maximum levels of outstanding drawings which members of each regional clearing house as a group can draw for a given period (say one year). This maximum could be set in proportion to the combined quota contributions of the regional clearing house members at the AfMF.

In the second stage, a country facing the above-stated settlements difficulties could apply to the Fund. If the member qualifies, AfMF would directly guarantee payment to the creditor countries thus accepting the qualifying member's settlement obligations as claims against itself by the creditor countries. Simultaneously, the applying member would accept counterpart liabilities at the AfMF and would be committed to make payments together with interest in specified amounts and within a period of 3 to 5 years. The claims and liabilities would be established in the same convertible currencies used for settlements in the Clearing Houses.

Thirdly, creditor countries could proceed to draw their settlement balances directly from the AfMF or maintain variable fractions of these balances as interest-bearing deposits in the facility. Among the guiding rules on applications and disbursements would be the following:

- AfMF would consider the eligibility and availability criteria of the last section;
- to qualify for the facility, the settlements difficulties should be related to exogenous factors beyond a member's control;
- a country requesting to use the facility would be expected to submit a report to facilitate a decision by the AfMF governing body; the report would outline plans to increase exports to the creditor countries in order to ameliorate settlement problems. Furthermore compliance on other measures may be required in conjunction with a drawing. Measures may include: removal of monetary inhibitions, tariff and non-tariff barriers, quantitative restrictions and other obstacles to intra-African trade;
- where feasible, loan guarantees may be arranged for use in conjunction with the facility.

(b) Medium-to-Long-Term Facilities

i) The AfMF Medium-Term Structural Adjustment Financing Facility (MSAFF)

The Medium-Term Structural Adjustment Financing Facility would be designed to assist countries facing extreme balance of payments pressures arising from structural changes in economic circumstances such as the viability of the export base or the need to exploit a newly-discovered resource; the facility would also finance programs to rehabilitate economic activity in the face of natural calamities such as drought, massive crop failures and destruction of infrastructure which supports the productive base.

Financing from the facility would broadly support balance of payments needs arising from the necessity to restructure and rebuild the productive capacity of the economy. Loans could be disbursed under stand-by arrangements and could be repayable from five to seven years. On the basis of a report submitted with a member's application showing the scope of payments disequilibrium, planned maturity and amortization of the loan and the timing and size of instalments, the AfMF would assist the member to design an adjustment program entailing performance criteria to be complied with. The program and all conditionalities would be contained in a country Economic and Financial Report which would be submitted to the AfMF governing body. Depending on criteria such as the size of the loan and maturity, the AfMF governing authority may vote approval by telex or convene a meeting to take a decision on the application. As discussed earlier the facility may be approved as part of a facility-link. Among the guiding rules on applications and disbursements could be the following:

- AfMF would consider the eligibility and availability criteria of the last section;
- all applications would be accompanied by the above-mentioned report which would be followed by consultations with AfMF and the preparation of the country Economic and Financial Report;
- the priority to supply the import requirements of the adjustment program would be given to African markets and to the markets of foreign countries subscribing to the AfMF, participating in co-financing or according guaranteed loans to AfMF members;
- when feasible, loan guarantees would be arranged and accepted by the applying member as described in the last section.

ii) The AfMF Long-Term Structural Adjustment Financing Facility (LSAFF)

As shown in Section I of this paper the African economic crisis now defies categorizations in terms of short-term adjustment versus long-term adjustment, balance of payments pressures versus the needs for development financing etc. These disequilibria are observed and tend to deepen simultaneously. Long-term structural adjustment financing would not simply put AfMF on the professional terrain of other agencies such as the ADB, or World Bank. It would be designed to respond to the multifaceted nature of the adjustment problem and would indeed complement the work of other agencies. For example the medium-term-to-long-term phases of the African development process are marked by high import-absorptive capacity typically directed at income-generating activities. This development-oriented import bias of middle-phase development necessarily creates payments pressures whose pay-offs in terms of higher incomes, savings, standards of living etc., cannot be realized unless the necessary payments financing is made available.

Since the facility would have the objective of supporting improvements in supply capacities and income, the financing of balance of payments would discriminate against consumption in favour of investment goods. Drawings from the facility could be disbursed under a stand-by-arrangement and would be repayable over six to fifteen years. A country could apply to draw from the facility by submitting a report showing the import constraints of a long-term development program, the planned maturity and amortization of the loan, and the timing and size of instalments. The report would become the basis for a detailed study by the AfMF staff in collaboration with the applying member culminating in a Country Economic and Financial Report on the feasibility of a Long-term Structural Adjustment Program. The report would set out all the conditionalities which the country would be expected to adhere to and would also form the basis for a meeting of the AfMF governing body to take a decision on the application. The adjustment program may be designed under the facility-link approach. Among the guiding rules on applications and disbursements could be the following:

- AfMF would consider the eligibility and availability criteria of the last section;
- all applications would be accompanied by the above-mentioned report on whose basis AfMF and the applying member would collaborate in a study entitled the Country Economic and Financial Report on the feasibility of a long-term structural adjustment program;
- the priority for the supply of the import requirements of the adjustment program would be given to African markets and to markets of foreign countries subscribing to the AfMF, participating in co-financing or according guaranteed loans to AfMF members;
- stand-by-arrangements would be operated such that disbursements are graduated according to compliance with conditionalities set out in the Country Economic and Financial Report. If extraordinary changes occur affecting the macro-economy, a country m request a review of the Country Report. Otherwise complian would be assessed in annual AfMF progress reports submitted to the governing authority as a basis for continued disbursements;
- when feasible loan guarantees would be arranged and accepted by a member as described earlier.

CONCLUSION

This paper begins by presenting an outline of the current economic crisis in Africa, arguably the deepest the continent has yet faced. The crisis is led by an acceleration in a long-term trend for output decline whose most disastrous aspect has been the decline in food supplies. The external economic environment has been similarly unfavourable. Export prospects are diminished by unfavourable shifts in market shares, falling terms of trade and narrowness of the export-base which makes many African countries vulnerable to the price collapse of even a few principal exportables. Furthermore African countries have watched their traditionally weak channels of access to external resources suffer even further retrenchment with adverse consequences for output performance, capacity for adjustment and exports which are based on the availability of imported raw materials.

In the economic crisis, the role of international financing agencies, particularly the IMF, have been enhanced in the 1980s. Over the years the Fund's low conditionality resources have more than doubled with the increase in quotas and the supplementation of the first credit tranche with the first 50 % of the quota available under the Compensatory Financing Facility. The resources available under the Buffer Stock Financing Facility also carry low conditionality. Resources available under the high-conditionality tranches have been expanded even further with supplementation from the Extended Financing Facility, the Enlarged Access Policy and the High Conditionality Component of the Compensatory Financing Facility. In the light of Africa's weak credit ratings and meagre resources attracted from the private capital markets, which expanded rapidly in the 1960s and 1970s, IMF resources are of relatively greater importance to the continent than to some other developing regions. The record of benefits from their use is highly debated however.

The issues concerning IMF conditionalities in the debate are not about the concept itself but the underlying failure of stabilization programs, even in analytical terms, to address the structural aspects of the African macro-economy. The result is that countries tend to borrow repeatedly for the same recurring balance of payment pressures without any structural solutions in sight. In the 1980s for example, GDP has fallen every year so far for Sub-Saharan Africa, a context in which the affectiveness of short-run adjustment programs oriented to the reduction of absorption alone is highly questionable unless concurrent measures are taken to support economic recovery.

In the continental initiatives and discussion stimulated by the Lagos Plan of Action (1981), one current idea is the formation of an African Monetary Fund to act not only as a lender of «self» resort but as a focal centre for new orientations in adjustment program-planning. This paper makes a number of suggestions on the lending procedures and conditionalities which the Fund could apply with a degree of relevance to the current African economic malaise.

In the current state of the African macro-economy it would be relevant for an African Monetary Fund to focus its priorities on the following tasks: the economic recovery of African economies, the enhancement of capital flows, the strengthening and restructuring of the production and export base in order to enhance the capacity to adjust to external shocks, the enhancement of self-sufficiency, and the promotion of co-operation and intra-African trade. The Fund would also need to be guided by a set of general conditions underpinning all lending activities to the particular economic problems of the continent. The conditionalities suggested in this paper are similarly based on some frequently-cited omissions of standard IMF programs in Africa: the need to encompass balance of payments adjustment within supply-augmenting policies or what we conceive as a «facility-link» approach; the need to increase and diversify intra-African trade which, in the long-run and under the clearing house mechanisms, will be foreign-exchange-conserving; the need to relate a member's access to assistance to the relative availability of credit from other sources; the need to broaden performance criteria in line with the needs for payments adjustment and supply augmentation, etc.

This paper finally proposes three short-term financing facilities and two medium-to-long-term facilities which an African Monetary Fund

This paper finally proposes three short-term financing facilities and two medium-to-long-term facilities which an African Monetary Fund could evolve over a period of time.

FOOTNOTES

1. See Lagos Plan of Action for the Economic Development of Africa, Organization of African Unity, 1981, pp. 83–90.
2. The extent to which the two institutions are beholden to the old orthodoxy is illustrated by the case of the IMF in 1979 when the concern of the Group of Twenty Four on International Monetary Affairs with performance criteria and conditionalities stimulated an internal review of guidelines on conditionality. Thereafter, conditionalities have become tougher not lower. Vigorous contractionary fiscal and monetary policy measures are required for the approval of stand-by agreements. Helleiner, (1983), has noted that in the first half of 1982, in the midst of the worst recession in thirty years, the IMF cancelled more commitments than it made new ones on the basis that performance criteria had not been achieved.
3. See Appendix I, on IMF facilities and Sub-Saharan Africa.
4. See Khan M. and Knight M. (1981) Singh A. (1984), Kaldor N. (1982), Buira, A. (1983) for extensive theoretical treatments.
5. For the derivation, see A.C.M.S. 1984, p. 23 as an example.
6. The reasoning here is that during the standard 1 year program, the national capital stock is fixed. Even if this were so real income can always be increased by absorbing excess capacity as Khan, Kninght (1981) have argued.
7. For a more detailed critique, see, A.C.M.S., 1984.
8. See Kreinin M. and L. Officer (1978) for an excellent exposé of analysis in this part.
9. See Johnson, O., *Issues Related to Exchange Rate Policies in Less Developed Countries: The Case of Sub-Saharan Africa,* I.M.F., DM/78/113, Dec., 1978.
10. See Frimpong-Ansah (1983) and West African Clearing House Annual Report, 1980/1981.

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APPENDIX I

IMF Facilities
Analysis of Access and Conditionalities for Sub-Saharan Africa: (as of April, 1984)

Facility	Conditionalities	Available % of quota	Remarks
A. Reserve Tranche	Automatic availability on balance of payments need. No challenge or economic policy conditions.	25	Sub-Saharan Africa's aggregate quota is small-3730.5 million SDRs as of April 20, 1984 or 4.18 % of total Fund quotas. Available amount is 937.65 million SDRs which in any case has to be contributed to the Fund quotas in reserve assets prior to availability.
B. First Credit Tranche	Low conditionality drawing available without performance criteria or obligatory stand-by arrangements. Reasonable efforts expected towards adjustment of payments problems. Repayments in three to five years.	25	Available amount is again 937.65 million SDRs or an average of 21.81 million SDRS for 43 countries in this sample.
C. Upper Credit Tranches	High conditionality drawings available with performance criteria and obligatory stand-by arrangements normally. Strict adherence to performance criteria required from each stand-by period to the other. Any failure in meeting criteria which involve domestic credit, public spending, trade policies, etc. prevents further drawings. Repayments in three to five years.	75	Available amount is 2812.95 million SDRs or average of 65.42 million SDRs for 43 countries in the sample. If there are serious income effects from deflationary monetary and fiscal policies in the stabilization programs, the costs of adjustment could well be higher than the amount extended. Significance of these income effects in Africa is that they could represent reversals in development achievements.
D. Extended Fund Facility	High-conditionality drawings available. Extends more resources for greater periods (up to three years) relatively to the quotas than available in credit tranche policy. Admits payments and structural adjustment loans for medium-term. Disbursements are pha-	140 (the limit is subject to the Fund holdings of a member's	Since the applying member is expected to follow an adjustment policy package for the whole period with specific criteria for each 12 month period the program must rely on judgemental forecasts of economic activity which in African countries can be changed quickly by external shocks. Program failure may result from these shocks while the Fund's penalty of withdrawal of stand-by arrangements is couched in terms of policy failure.

APPENDIX I (contd.)
IMF Facilities
Analysis of Access and Conditionalities for Sub-Saharan Africa: (as of April, 1984)

Facility	Conditionalities	Available % of quota	Remarks
D. Extended Fund Facility (contd.)	sed out and adjustment program hinges on performance clauses for whole period relating to policy measures which are obligatory. Repayment in 12 equal installments over a four and a half to twelve year period.	currency not exceeding 265% of its quota)	
E. Compensatory Financing Faility	Low-conditionality drawings available (up to 50% of quota). Balance of available drawings-43% of quota for either export short-falls or excess costs of cereal imports or 55% of quota for joint drawing - is available under high-conditionality with obligatory co-operation with the Fund in meeting adjustment criteria. Repayment in 3 to 5 years.	83% of quota for either export short falls or excess costs of cereal: 105% of quotas as joint ceilling.	For African countries, the joint ceiling is restrictive and fails to recognize that export short-falls arising from drought (agricultural exports) or collapse in external markets (raw materials & mineral exports) must occur simultaneously with an excess burden in food imports. Furthermore the true burden of excessive import costs is not reflected in cereal costs. In some countries these may be a lesser problem to adjustment than the shortage of raw material imports.
F. Buffer-Stock Financing Facility	Low-conditionality drawings available to assist needful members in making contributions to U.N. approved international buffer stocks of primary products. Repayment in 3 to 5 years.	45% of quota.	Facility has not been of wide benefit to African countries since buffer stocks for many African commodities have yet to be constituted.
G. Enlarged Access Policy	High conditionality drawings available to supplement resources for serious	102-125% of quota	The enlarged access policy has the same short-comings as those of the upper credit tranches and the extended facility.

APPENDIX I (contd.)

IMF Facilities
Analysis of Access and Conditionalities for Sub-Saharan Africa*: (as of April, 1984)

Facility	Conditionalities	Available % of quota	Remarks
G. Enlarged Access Policy (contd.)	payments imbalances. Supports programs under upper-credit tranches or beyond. Subject to performance criteria and stand-by arrangements over 1–3 years.	annually 306-375% of quota over a 3 year period. Subject to cumulative limit of 408-500% of quota.	

* *The sample consists of 39 countries covered in World Bank,* Toward Sustained Development: A Joint Program of Action for Sub Saharan Africa, *Washington D.C. 1984 and includes four other countries; Cape Verde, Comoros, Djibouti, and Sao Tome and Principe*

Source: *IMF Survey, September, 1984.*

RESUME

Cet article comporte trois parties, traitant du problème de l'ajustement des économies africaines à la crise économique actuelle.

Dans la première partie, l'auteur analyse différents facteurs de la crise : le ralentissement de l'activité économique, la dégradation de l'environnement commercial, le retrécissement du volume des capitaux et le resserrement du crédit. Ces facteurs négatifs ont contribué à réduire la capacité des pays africains à sortir leurs économies de la crise.

La deuxième partie traite du rôle particulier joué par les Institutions Financières Internationales, en l'occurence le FMI (Fonds Monétaire International). Le vif débat sur les avantages des programmes d'ajustement du FMI s'élucide à la lumière d'un certain nombre de problèmes analytiques auxquels le modèle proposé n'apporte aucune solution. Un certain nombre d'exemples illustrent l'incapacité du modèle proposé à mener à bien sa politique d'ajustement, par le biais d'objectifs nationaux, de crédits et de la dévaluation.

La troisième partie traite d'une initiative que les spécialistes africains en matière monétaire ont envisagée dans le Plan d'Action de Lagos en 1981 : la création d'un Fonds Monétaire Africain. L'objectif de ce fonds est de concrétiser et de donner un certain poids aux problèmes que posent les pays Africains dans ce débat sur l'ajustement. Ce fonds ferait également fonction d'organisme continental de prêts qu'il accorderait sur ses propres ressources.

Cet article examine également certains aspects du fonds ; il s'agit de nouvelles méthodes de limitation par des conditions, de nouvelles méthodes de prêts et d'emprunts élargies à l'augmentation de l'offre, à la stimulation des flux de capitaux et au soutien des échanges commerciaux inter-Africains, ainsi que les institutions connexes comme les chambres de compensation.

Les nouvelles mesures d'ajustement proposées dans cet article seraient étayées par un certain nombre de structures, visant à équilibrer la balance des paiements et à stimuler le financement intérieur.

D'autre part, parmi ces nouvelles méthodes l'on pense que certains programmes d'ajustement pourraient nécessiter un financement assorti de facilités. L'objectif de ces programmes serait d'apporter une solution aux pressions à court terme exercées sur la balance des paiements par le biais de l'augmentation de la capacité de production interne pendant la durée du programme.