Working Paper

46

THE IMF IN THE 1990s: FORWARD TO THE PAST OR BACK TO THE FUTURE?

Graham Bird

Results of ODI research presented in preliminary form for discussion and critical comment

ODI Working Papers available at September 1990

24: Industrialisation in Sub-Saharan Africa: Country case study: Cameroon
Igor Karmiloff, 1988, £3.00, ISBN 0 85003 112 5
25: Industrialisation in Sub-Saharan Africa: Country case study: Zimbabwe
Roger Riddell, 1988, £3.00, ISBN 0 85003 113 3
26: Industrialisation in Sub-Saharan Africa: Country case study: Zambia
Igor Karmiloff, 1988, £3.00, ISBN 0 85003 114 1
27: European Community Trade Barriers to Tropical Agricultural Products
Michael Davenport, 1988, £4.00, ISBN 0 85003 117 6
28: Trade and Financing Strategies for the New NICS: the Peru Case Study
Jurgen Schuldt L., 1988, £3.00, ISBN 0 85003 118 4
29: The Control of Money Supply in Developing Countries: China, 1949-1988
Anita Santorum, 1989, £3.00, ISBN 0 85003 122 2
30: Monetary Policy Effectiveness in Côte d'Ivoire
Christopher E Lane, 1990, £3.00, ISBN 0 85003 125 7
31: Economic Development and the Adaptive Economy
Tony Killick, 1990, £3.50, ISBN 0 85003 126 5
32: Principles of policy for the Adaptive Economy
Tony Killick, 1990, £3.50, ISBN 0 85003 127 3
33: Exchange Rates and Structural Adjustment
Tony Killick, 1990, £3.50, ISBN 0 85003 128 1
34: Markets and Governments in Agricultural and Industrial Adjustment
Tony Killick, 1990, £3.50, ISBN 0 85003 129 X
35: Financial Sector Policies in the Adaptive Economy
Tony Killick, 1990, £3.50, ISBN 0 85003 131 1
37: Judging Success: Evaluating NGO Income-Generating Projects
Roger Riddell, 1990, £3.50, ISBN 0 85003 133 8
38: ACP Export Diversification: Non-Traditional Exports from Zimbabwe
Roger Riddell, 1990, £3.50, ISBN 0 85003 134 6
39: Monetary Policy in Kenya, 1967-88
Tony Killick and F M Mwega, 1990, £3.50, ISBN 0 85003 135 4
40: ACP Export Diversification: Jamaica, Kenya and Ethiopia
Christopher Stevens, 1990, £3.50, ISBN 0 85003 136 2
41: ACP Export Diversification: The Case of Mauritius
Matthew McQueen, 1990, £3.50, ISBN 0 85003 137 0
42: An Econometric Study of Selected Monetary Policy Issues in Kenya
F. M. Mwega, 1990, £3.50, ISBN 0 85003 142 7
43: Differences in Econometric Performance between Franc Zone and other sub-Saharan African Countries
Christopher E. Lane and Sheila Page, 1991, £3.50, ISBN 085003 148 6
44:Monetary Policy Effectiveness in Indonesia, 1974-1900
Christopher E. Lane, David C. Cole and Betty F. Slade, 1991, £3.50, ISBN 0 85003 150 8
45:Monetary Control in Ghana: 1957-1988
Nii Kwaku Sowa, 1991, £3.50, ISBN 0 85003 152 4
46: The IMF in the 1990s: Forward to the Past or Back to the Future?
Graham Bird, 1991, £3.50, ISBN 0 85003 153 2
47: What Can We Know About the Effects of IMF Programmes?
Tony Killick, Moazzam Malik and Marcus Manuel, 1991, £3.50, ISBN 0 85003 154 0
48: Country Experiences with IMF Programmes in the 1980s
Tony Killick with Moazzam Malik, 1991, £3.50, ISBN 0 85003 155 9

WORKING PAPER 46

THE IMF IN THE 1990s: FORWARD TO THE PAST OR BACK TO THE FUTURE?

Graham Bird

September 1991

ISBN 0 85003 153 2

OVERSEAS DEVELOPMENT INSTITUTE
Regent's College
Inner Circle, Regent's Park
LONDON NW1 4NS

Preface and Acknowledgements

ODI Working Papers present in preliminary form work resulting from research under the auspices of the Institute. Views expressed are those of the authors and do not necessarily reflect the views of ODI. Comments are welcomed, and should be addressed directly to the authors.

This paper is one of a series of drafts for a study currently under preparation at ODI by Graham Bird and Tony Killick with the provisional title of *The IMF and Developing Countries: Its Role in the 1990s*. The completed report will review developments in the 1980s; examine the Fund as a source of finance and issues in its lending policies; review the theory and practice of IMF policy conditionality and of heterodox alternatives to it; and explore the future role of the Fund. The present paper is a draft of the introductory chapter of the study, surveying the ways in which the position of the IMF has been changing, particularly in the 1980s, and providing an overview of the key issues concerning its future role, as they appeared in the early 1990s. The following titles are published contemporaneously with this paper and others will follow later:

47 What Can We Know about the Effects of IMF Programmes?
Tony Killick, Moazzam Malik and Marcus Manuel

48 Country Experiences with IMF Programmes in the 1980s
Tony Killick with Moazzam Malik

Tony Killick is Senior Research Fellow at the Overseas Development Institute and Graham Bird is Professor of Economics at the University of Surrey and Research Associate at ODI. The project under which this Working Paper has been prepared is funded by the Overseas Development Administration, whose support is gratefully acknowledged. Neither they nor the authors' respective employers necessarily agree with the contents of this Working Paper, which is the authors' responsibility alone.

Contents

1. Introduction

A feature of the 1980s and early 1990s has been the increasingly broad and vehement criticism that has been made of the International Monetary Fund (IMF) as a major international financial institution. The criticism has indeed frequently been sufficiently hostile as to call into question the Fund's very existence. Of course, criticism is to be expected of any large institution; and the Fund has never been free from those commentators who have sought to challenge at least some part of its operations. During the 1960s, for example, the most common criticism was that it had failed to do enough to redress the perceived problem of the inadequacy of official international reserves. During the 1970s more systematic criticisms of its lending facilities began to emerge. The Fund's role as an adjustment institution also began to receive closer critical examination; and it was this aspect of the Fund's activities upon which critics focused at the beginning of the 1980s with a number of books recommending the reform of IMF conditionality. Criticism ranged from the more extreme view that IMF-supported programmes were always, or at least invariably, inappropriate, to the more moderate one that a richer mix of conditionality was needed to accommodate the different economic circumstances that existed in member countries.

Such criticisms have persisted through to the beginning of the 1990s, with evidence on the impact of Fund-supported policies proving inconclusive. However, these, almost conventional, criticisms of the Fund have been joined by others. Perhaps not surprisingly, given the reassertion of market economics which occurred during the 1980s, a criticism has been voiced that the Fund should not be involved in lending at all, and that this is better left to the private sector through commercial lending and private foreign direct and portfolio investment. Significantly, therefore, the Fund began to be criticised from both ends of the political spectrum. Those from the left argued that it imposed stagflationary and anti-development policies based on monetarist modes of thought, while those from the right argued that, certainly as a lending agency it was not needed.

The mid-to-late 1980s saw criticism of the Fund taking on a somewhat different dimension. An argument now was that, within the context of the Third World debt crisis in particular, the Fund had become much too political, with lending decisions reflecting political modalities rather than economic realities. The claim was that some of the Fund's principal shareholders were more overtly using it as an arm of foreign policy. With political considerations taking precedence over economic ones, the criticism was that the Fund would quickly lose its credibility and reputation, characteristics that were fundamental to its successful operation. If the programmes that the Fund supports fall short of what is required they will fail. If Fund-supported programmes are seen to fail there will no longer be any confidence in its judgement. With such a lack of confidence, the Fund will find it impossible to exert meaningful influence over international monetary matters, and, in these circumstances, it might just as well be abandoned.

An interesting feature of much of the recent criticism of the Fund, however, is that it has been rather unconstructive. Commentators and officials assemble a catalogue of complaints, but are reluctant to suggest ways in which the problems may be overcome.

The preference often appears to be for muddling through. Criticism from amongst officials of the monetary authorities of the Fund's main shareholders is matched by an unwillingness to close down the Fund or engage in fundamental institutional reform.

If criticisms of the Fund are legitimate, however, it seems sensible to examine the courses of action that may be taken in order to try and remedy them. Four options suggest themselves: to close down the Fund and not to replace it; to close down the Fund and replace it with a new institution designed to carry out certain specified functions; to reform the Fund as it stands rather than close it down; and, finally, to reform other related institutions, such as the World Bank, the Organisation for Economic Co-operation and Development (OECD), or the Groups of 3, 7, or 10 industrialised nations. Some of these options are not mutually exclusive.

The option of closing down the Fund is not one that should be dismissed lightly. There is perhaps too often a tendency to accept existing institutional constraints as given because of inertia and a satisficing approach to institutional arrangements.

A basic problem in economics, and even more so in political economy, is that things change through time. Policies based on historically estimated relationships can turn out to be ineffective or even counter-productive if these relationships subsequently shift. The same may be said of the institutional framework under which policy is implemented. At the time of their inception, the design of most institutions reflects the nature of the specific problems that they are intended to help resolve. Clearly there will be other constraining factors at work which might loosely be referred to as 'political', but, even so, institution-building tends to be a reactive and problem-related process. With imperfect foresight it is difficult to create institutions that will be appropriate to all circumstances. Of course flexibility in design may help. Moreover, operational experience will almost certainly induce modifications and a process of evolution. But will the speed and nature of institutional evolution necessarily match the speed and nature of the evolution of economic events with which the institution has to deal?

Furthermore, there are important constraints on internal institutional reform. An institution's constitution may be used as a barrier to change. Important issues may be neglected on the basis that they are outside the institution's existing terms of reference. Organisational structure and the mechanics of decision-making may also impede flexibility of response. It cannot therefore be assumed that an existing institution will be modified in such a way that at any one time it looks much like the one that would be set up if the building process were to start from scratch.

If there are both economies of 'learning' and increasing costs of organisational inflexibility, it may be possible to conceive of an optimum institutional life-span. An existing institution may reach a stage where it has outlived its usefulness. Such a theory of institutional euthanasia may appear somewhat esoteric, but it does suggest that it is appropriate from time to time to review existing institutional structures and to ask whether the *status quo* is the best that can be offered. And, if not, to ask further about the best way in which reform may be implemented.

Clearly institutional euthanasia may be more appealing where there is no need to replace the existing institution. In these circumstances, the cost of building new institutions can be avoided. If, however, it is felt that there are functions for an institution to perform, a critical question is whether there are any reasons to believe that a new institution will perform them better than an old one. Where, for example, the shortcomings of an existing institution arise from the attitudes of the major shareholders who control it, it is difficult to see how purely institutional changes will have much effect unless these attitudes change. Yet with a change in attitudes the shortcomings of the existing institution may, more easily, be corrected.

These general considerations are relevant to the specific case of the International Monetary Fund (IMF). The Fund has been in existence for approaching 50 years; a period of time during which there have been massive changes in the world economy. Has the Fund been modified sufficiently to cope with these changes; if not, can it be; does the world need an institution such as the Fund; is an altogether different institution needed?

Before moving on to examine some of these issues, it is important to bear in mind that reference to 'the Fund' may be unhelpful and potentially misleading. The Fund's policies are, after all, determined by its Board members, who represent the interests of their own respective constituencies. Decisions made by 'the Fund' often represent compromises between the interests of different countries, although they may be based on advice from the Fund's own staff. Even the views of different departments within the Fund may be expected to differ: advice from a member of the Research Department may, for example, not necessarily match that coming from someone with concern for a specific geographical area. Despite its rather disciplined and monolithic nature, the complexity and many nuances of 'the Fund' make analysis of the institution difficult. Simple analysis runs the risk of being unrealistic and therefore of only limited merit.

2. <u>The IMF in Retrospect: Systemic Marginalisation</u>

Discussion of the future needs to be placed in historical context. Looking forward is assisted by looking back. What does looking back tell us about the Fund?

The IMF was originally established to encourage international co-operation to cope with recession and protectionism on a world scale and to discourage individual countries from pursuing policies that would beggar their neighbours and eventually themselves. The desire to improve on the international chaos of the 1930s led to the Bretton Woods conference in 1944 and an attempt to devise a system which would provide a more permanent and acceptable framework for international transactions. It was intended that the emerging Bretton Woods system would generate benefits for international trade in the form of stable (though not necessarily fixed) exchange rates, whilst, at the same time, avoiding the deflationary rigidities of the gold standard mechanism. The system was designed to ensure a world of full employment and economic growth.

If the general purpose of the Fund at its inception was to oversee the operation of the infant Bretton Woods system, its more specific purposes were spelt out in Article 1 of its Articles of Agreement as follows:

(i) To promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

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

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

Within the framework set by these terms of reference the Fund operated first, as a balance of payments adjustment institution, encouraging payments correction by means other than the use of exchange rates (except in cases of fundamental disequilibrium) or protectionist trade measures; second, as a balance of payments financing institution, providing temporary finance designed to support adjustment measures to cushion self-reversing payments instabilities; and third, as a focus for a system of rule-based international macroeconomic policy co-ordination, based essentially on the defence of established currency par values. The Fund thereby provided a linchpin for the centralised management of the international monetary system.

Throughout the 1950s and 1960s few questions were asked about the legitimacy of what the Fund was doing. On most criteria the world economy was performing well, or at least satisfactorily. Given these circumstances, the question of the extent to which success was due to the operation of the Bretton Woods system and the IMF simply did not arise. Deeper thought would have revealed the fundamental difficulties that exist in evaluating international monetary systems, and would have suggested the possibility that it was the success of the world economy which concealed the weaknesses of the Bretton Woods system and enabled it to survive. But such issues hardly seemed relevant at the time. Superficially at least the Fund appeared to be successful in achieving the objectives it had been set. The Bretton Woods exchange rate regime did provide a code for the non-aggressive use of devaluation; the IMF did provide a consultative forum within which international financial reform was debated and implemented; the world economy did enjoy a period of sustained expansion; and world trade was liberalised and did grow. So what went wrong?[1]

A lengthy answer to this question would articulate the various deficiencies of the Bretton Woods system in terms of the adjustment mechanism it incorporated, the method of reserve creation it used, and its vulnerability to speculative attacks. However, shorter answers are available.

The first is that the Bretton Woods system broke down. As a result the IMF, as the agency which had been charged with overseeing the operation of that system, was left disoriented, apparently with little or no systemic role. The Bretton Woods system was replaced by a much looser set of international monetary arrangements. There was very little 'system' left, and, in effect, the international monetary system was privatised, with the result that there was no role for a quasi-governmental institution such as the Fund. Moreover, the way in which international financial arrangements evolved during the 1970s and 1980s served to marginalise the systemic role of the Fund. First, there was the adoption of generalised flexible exchange rates. Initially these were inconsistent with the Fund's own Articles of Agreement; but even after the Articles had been modified to accommodate floating, the Fund continued to exert little influence over the direction and size of exchange rate movements. Efforts to provide a degree of surveillance over them, and to devise a set of guidelines according to which government intervention in foreign exchange markets might be carried out, had little discernible impact.

The move to generalised flexible exchange rates also took away the means by which macroeconomic policy had been internationally co-ordinated. The retreat from international policy co-ordination essentially carried on until the mid-1980s. The Bonn Summit of 1978 represented an exception to this trend, although even here co-ordination was not organised around exchange rates. The early 1980s were characterised by the sustained appreciation in the value of the US dollar and by the 'benign neglect' that the US administration showed for this. It was not until the Plaza Accord of 1985 that a co-ordinated move to bring down the dollar's value was implemented; with this arrangement being followed by further attempts to manage exchange rates, the most notorious of which was the Louvre Accord of 1987. However, such co-ordination was handled outside the IMF by the G-7 or G-3 countries. The Fund's Managing Director was not even involved in the Plaza discussions. The late 1980s illustrated the degree of overlap between the former systemic role of the IMF in terms of exchange rate management, balance of payments adjustment, and the avoidance of worldwide inflation or deflation, and the actual

---

[1] For a brief discussion of the operation and weaknesses of the Bretton Woods system see Bird (1985).

role being contemporaneously played by a small sub-group of powerful industrial countries outside the auspices of the Fund.

The second area in which the activities of the Fund were marginalised after the breakdown in the Bretton Woods system involved balance of payments financing. Although the oil price rise of 1973 and the related diversity in balances of payments and rates of inflation dramatically increased the need for international financial intermediation, this largely took place through the private international banks. The late 1970s saw the privatisation of balance of payments financing. This privatisation was of course neither instantaneous nor complete. The Fund did respond to the oil price rise by introducing the Oil Facility and it did expand its loans in the mid-1970s by liberalising the Compensatory Financing Facility (CFF). But the extent of privatisation was on a sufficient scale to reflect a broad systemic change. During the period 1977-82 short-term bank lending to developing countries ran at an annual average of $19.5 billion whereas net purchases from the Fund were only $2.5 billion.

Related to both the move to exchange rate flexibility and the private financing of balance of payments deficits, the Fund's importance as a source of official reserve creation also became marginalised during the 1970s. Ironically, the decade had begun with the introduction of the Special Drawing Right; and even as late as 1976, at its Jamaica meetings, the Fund's shareholders were asserting the objective of establishing the SDR as the principal reserve asset in the international financial system. The reality was, however, that, with flexible exchange rates and the private financing of payments deficits, the quantity of official reserves became viewed as an unimportant issue. The 'system' moved over to the wider use of certain national currencies as international reserve assets, thereby becoming a multiple reserve currency system; SDR creation was not maintained, and attempts to introduce a substitution account failed; even the SDR's use as a unit of account was superseded by the European Community's European Currency Unit (ECU). Some critics of the SDR observed gleefully that rather than just being marginalised, the SDR had been almost totally obliterated. Certainly no effective role seemed to be left for the Fund in influencing global reserve adequacy; a role that had appeared central in the 1960s.[2]

Finally, the trend seemed to be to move away from international monetary arrangements and towards regional ones. Increasing regionalisation was most dramatically illustrated by the establishment of the European Monetary System in 1979. It was now at the regional level that the management of exchange rates and the co-ordination of macroeconomic policy occurred.

While such developments led some to call for the establishment of a European Monetary Fund to carry out within Europe the former systemic functions of the IMF, others now

---

[2] Some analysts have argued strongly that the adequacy of international reserves was never as important an issue as it was thought to be in the 1960s, and that the so-called Triffin dilemma associated with the key role of the dollar was not a dilemma at all, see Chrystal (1990). For a rather different perspective, see Bird (1985).

argued for the dissolution of the IMF. During the 1970s this call was loudest from those developing countries which, observing the collapse of the old economic order, of which the Fund was seen as a central part, argued for the establishment of a New International Economic Order (NIEO) with brand new institutions. However, the political influence of this argument was only ever likely to be as strong as the commodity cartels that in fact failed to materialise.[3] More influential remained the argument that the Fund was no longer needed in a non-Bretton Woods and market-dominated world economy. What was left for the Fund to do?

3. Changing Partners: the Fund's Involvement with Developing Countries

While events during the 1970s undermined the global systemic role of the Fund, they also served to create circumstances in which the Fund was almost forced into accepting a new and more specific role. This role reflected the evolving balance of payments problems which developing countries encountered during the 1970s and 1980s. During the latter part of the 1970s the Fund's role was largely limited to the poorest countries of the world, located in Africa and Asia, which lacked creditworthiness in the eyes of the commercial banks. Beyond 1982, however, and with the arrival of the debt crisis, the Fund's dealings spread to include the better-off developing countries of Latin America. The Fund's involvement included both financing and adjustment elements; and it was in the context of the period immediately following the debt crisis that the Fund transiently recaptured systemic significance by helping to avert the collapse of the international banking system which some commentators argued the debt crisis would cause.

The Fund's involvement with developing countries is quite starkly revealed by considering the size and pattern of its lending since the mid-1970s.

Table 1 gives information on the use of Fund credit. This is confined to developing countries because none of the advanced industrial countries has utilised Fund credit in recent years (although during the early 1990s a number of the former Communist states of eastern and central Europe became important borrowers from the Fund[4]). This position contrasts sharply with that of earlier periods. In 1968-1972, for example, 11 industrial countries, including all the G-7 countries (with the sole exception of Japan), drew on the Fund. Drawings by developing countries although numerous were also relatively small. Thus, over the same five-year period, 33 developing countries used Fund credit, but even at their peak in 1968 these drawings reached only 23% of the total quotas of developing countries. In 1970, SDR 2.4 billions of the Fund's total outstanding credit of SDR 3.2 billions were with industrial countries. Throughout the rest of the 1970s,

---

[3] For a further discussion of the failure to establish a NIEO, see Bird (1988). It may be noted that as yet an effective debtors' cartel has proved as illusory as a commodity cartel.

[4] As at May 1991 a total of SDR 4.1 billions had been committed by the Fund under stand-by and extended programmes to Bulgaria, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia, equivalent to 27% of all commitments at that time.

Table 1: Developing countries: net credit from IMF, 1982-90†
(in billions of US dollars)

	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Developing countries	**6.9**	**11.0**	**4.7**	**-**	**-2.7**	**-5.9**	**-5.0**	**-2.4**	**-1.8**
By region									
Africa	2.0	1.3	0.6	0.1	-1.0	-1.1	-0.3	0.1	-0.6
Asia	2.3	2.5	0.3	-1.0	-0.9	-2.4	-2.4	-1.1	-2.4
Europe	1.3	1.1	0.5	-0.6	-0.9	-1.6	-1.3	-1.1	-
Middle East	-0.1	-	-	-	-0.1	0.1	-0.1	-	-0.1
Western Hemisphere	1.5	6.1	3.4	1.5	0.1	-0.8	-0.9	-0.2	1.2
By predominant export									
Fuel	0.2	1.7	1.3	-	0.8	1.0	-	2.0	2.7
Non-fuel exports	6.7	9.3	3.5	-	-3.6	-6.8	-5.0	-4.4	-4.5
Manufactures	3.6	4.7	3.0	-1.0	-1.5	-5.1	-3.8	-3.4	-2.5
Primary products	1.2	3.4	0.6	1.1	-0.5	-0.3	-0.4	-1.0	-0.9
Agricultural products	0.8	2.4	0.1	1.0	-0.6	-0.2	-0.2	-0.9	-0.4
Minerals	0.4	1.0	0.4	0.1	0.1	-0.1	-0.2	-0.2	-0.5
Services & private transfers	0.6	0.6	-	-0.2	-0.6	-0.6	-0.6	0.2	-0.4
Diversified export base	1.5	0.5	-	-	-1.0	-0.8	-0.3	-0.1	-0.7
By financial criteria									
Net creditor countries	-	-	-	-	-	-	-	-	-
Net debtor countries	6.9	11.0	4.7	-	-2.7	-5.9	-5.0	-2.4	-1.8
Market borrowers	2.0	5.9	4.0	0.9	0.3	-2.4	-1.8	-0.1	0.6
Diversified borrowers	3.1	3.6	0.4	-0.7	-2.0	-2.7	-2.3	-2.0	-1.8
Official borrowers	1.8	1.6	0.3	-0.2	-1.0	-0.8	-0.8	-0.2	-0.6
Countries with recent debt-servicing difficulties	4.0	7.9	3.8	1.4	-1.5	-2.6	-2.1	-1.3	0.6
Countries without debt-servicing difficulties	2.9	3.1	0.9	-1.5	-1.3	-3.2	-2.9	-1.1	-2.4
Miscellaneous groups									
Sub-Saharan Africa	0.7	1.3	0.5	-	-0.4	-0.5	-0.2	-0.4	-0.3
Twelve major oil exporters	-	0.5	-	-0.4	-	0.6	-0.1	1.6	1.7
Net debtor fuel exporters	0.2	1.7	1.3	-	0.8	1.0	-	2.0	2.7
Four newly industrialising Asian economies	0.1	0.2	0.3	-0.2	-0.1	-1.2	-0.5	-	-
Small low-income economies	1.0	1.2	0.2	-0.2	-0.9	-0.6	-0.3	-	-0.6
Fifteen heavily indebted countries	2.2	6.3	3.3	1.6	-0.2	-1.3	-1.4	-0.8	0.6

Note: † Includes net disbursements from programmes under the General Resources Account, Trust Fund, structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF). The data are on a transactions flow basis, with conversions to US dollar values at annual average exchange rates.

Source: *World Economic Outlook*, IMF, Washington, May 1991.

industrial countries remained substantial users of Fund credit in one form or another; this in spite of the move to flexible exchange rates. Industrial countries were not insulated from the balance of payments consequences of the oil price rise of 1973 and there were some doubts concerning the permanency of flexible rates. Indeed drawings by the United Kingdom and Italy on their own accounted for almost 40% of total drawings from the Fund during 1974-1977. Beyond this period, however, no major (G-10) industrial country has used Fund credit. The United States drew under the reserve tranche in November 1978, but this did not involve the use of Fund credit. Indeed, there is some evidence that this drawing, as well as an earlier drawing by the UK in 1976, had been motivated by political considerations; basically the desire to get an outside endorsement for unpopular domestic policy.

With the legitimisation of floating exchange rates through the amendment of the Fund's Articles of Agreement in 1978; the establishment of the European Monetary System in 1979 and the credit facilities which this provided for members of the system; and continuing innovation in international financial intermediation using private capital markets, industrial countries could now easily bypass the IMF.

This was clearly not the case for developing countries, particularly after the debt crisis had come to the fore in 1982. Prior to that date a limited number of the better-off developing countries had enjoyed access to private capital in the form of loans from the commercial banks. By late 1981 most Fund lending was to the least developed countries. This is reflected in Table 1 by the relatively large amount of net Fund credit to the developing countries of Africa and Asia observed in 1982 and by the relatively small amount of net credit to the less developed countries of the Western Hemisphere. At this time a division of labour appeared to emerging between the Fund and the banks in terms of lending to developing countries. However, the pattern was rudely disturbed in 1983 and beyond, as countries formerly deemed creditworthy by the banks found their access to commercial credit being cut off. Given the size of their adjustment problems, these countries were now forced to turn to the Fund for finance. While in 1982 Fund credit in African LDCs had been a third larger than that in the LDCs of the Western Hemisphere, by 1983 it was only a fifth of the Western Hemisphere figure. The change in the pattern of Fund lending to developing countries was indeed dramatic. While there had been a steady increase in outstanding Fund credit in African LDCs during 1970-1985, and a rather less steady increase in Asian LDCs, Fund credit outstanding in the LDCs of the Western Hemisphere actually fell between 1976 and 1981 but then increased ten fold in the next five years.

Yet while the first half of the 1980s saw the Fund becoming quite heavily involved in providing credit to developing countries, by the second half of the 1980s the net transfer between the Fund and developing countries had become negative. If the negative net transfer that LDCs faced in terms of the banks was a problem, the Fund seemed to be adding to it rather than contributing to its resolution. On the other hand, the positive net flow of Fund resources in the earlier 1980s seen against a negative net flow of commercial loans had led to accusations that the Fund was bailing out the banks.

In quantitative terms, however, the Fund's response to the changing financing role of the banks during the 1980s was only partial. Table 2 illustrates the changing significance of developing countries' creditors during the 1980s. Even when the Fund's net lending was positive it did not offset the negative net flows associated with the commercial banks. In any case, the response was largely forced on the Fund by outside events; it was not a response that the Fund had orchestrated; except to the extent that concerted lending had been seen as a means of averting a major international financial catastrophe as a consequence of the debt crisis. Basically, if countries are eligible to draw, then the Fund has to make resources available. The changing pattern of Fund lending largely reflected changes in the demands coming from developing countries rather than a desire by the Fund to become more heavily involved in lending to them.

Whatever its cause, the changing pattern of Fund lending raised a series of questions concerning its role. Should it be lending exclusively to developing countries? Had it become, to all intents and purposes, a development agency? Was the nature of its conditionality appropriate for the countries that were now turning to it? Did lending to developing countries not mean that there was considerable overlap between the Fund and the World Bank, and, if so, how should this overlap be handled? Was the exclusivity of its clientele causing the Fund to lose sight completely of its former systemic role? Was there a need to make a distinction at the very least between the problems and requirements of the middle income as compared with the low-income countries? Underpinning much of this was a more general question which the Fund had wrestled with during much of its history - the question of whether developing countries warranted special treatment within the international monetary system.

4. Developing Countries as a Special Case

In its early years the Fund rejected the claim that developing countries warranted any form of special treatment. However, over the years a number of reforms were implemented which were primarily or exclusively directed towards developing countries. Given the Fund's position as a balance of payments institution, the rationale for such reforms has not been that of international equity, but rather the implicit acceptance that developing countries encounter payments problems which are different in either size or nature from those encountered by other country groups. What criteria might reflect this?

Balance of payments difficulties emanate from a number of sources. First there may be secular changes in exports, imports and long-term capital flows. For example, a country producing and exporting goods which have a low-income elasticity of demand and importing goods which have a higher one will tend to encounter balance of payments problems. Such factors reflect payments deficits and surpluses as essentially structural phenomena. On top of this, where demand and supply are themselves unstable, low-price elasticities of demand and supply will tend to result in instability in the terms of trade. In part such balance of payments instability reflects vulnerability to exogenous shocks.

Table 2: Total net resource flows to developing countries†
(current $ billion)

	1981	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*
1. Official Development Finance (ODF)	45.5	44.2	42.4	47.7	48.9	56.3	61.6	66.0	69.0
1. Official Development Assistance (ODA)	36.8	33.9	33.9	35.0	37.3	44.5	48.3	51.6	53.1
of which: Bilateral disbursements	28.9	26.3	26.3	27.2	28.8	34.9	38.2	40.3	40.5
Multilateral disbursements	7.9	7.6	7.6	7.8	8.5	9.6	10.1	11.3	12.6
2. Other ODF	8.7	10.3	8.5	12.7	11.6	11.8	13.3	14.4	15.9
of which: Bilateral disbursements	3.0	3.7	1.3	4.5	3.7	4.0	6.6	7.9	9.0
Multilateral disbursements	5.7	6.6	7.2	8.2	7.9	7.8	6.7	6.5	6.9
2. Total export credits	17.6	13.7	4.6	6.2	4.0	-0.7	-2.6	-0.5	1.2
1. DAC countries	16.2	12.7	3.9	5.2	3.4	-0.9	-2.9	-0.9	1.0
of which: Short-term	2.9	3.0	-3.5	0.3	3.2	3.0	4.1	2.0	1.0
2. Other countries	1.4	1.0	0.7	1.0	0.6	0.2	0.3	0.4	0.2
3. Private flows	74.3	58.2	47.9	31.7	31.4	28.2	34.5	40.4	40.2
1. Direct investment	17.2	12.8	9.3	11.3	6.6	11.3	21.0	25.1	22.0
of which: Offshore centres	4.1	4.1	3.7	3.8	3.7	6.8	13.5	9.9	-
2. International bank lending	52.3	37.9	35.0	17.2	15.2	7.0	7.0	5.8	8.0
of which: Short-term	22.0	15.0	-25.0	-6.0	12.0	-4.0	5.0	2.0	4.0
3. Total bond lending	1.3	4.8	1.0	0.3	5.4	2.7	0.5	0.4	1.0
4. Other private	1.5	0.4	0.3	0.3	1.3	3.9	2.5	4.9	5.0
5. Grants by non-government organisations	2.0	2.3	2.3	2.6	2.9	3.3	3.5	4.2	4.2
Total net resource flows (1+2+3)	137.4	116.1	94.9	85.6	84.3	83.8	93.5	105.9	110.4
Memorandum items:									
Total net credits from IMF	6.6	6.4	12.5	5.4	0.8	-1.4	-4.7	-4.0	-3.2

Note: † Flows from all sources, *i.e.* including DAC, Eastern European countries, Arab and other LDC donors. Excludes Taiwan.

Source: *Development Co-operation, 1990 Report*, OECD, Paris, 1990.

Both of the above factors influence the incidence of payments deficits and surpluses. Other important aspects of the balance of payments relate to the speed and efficiency with which deficits may be financed or corrected. The capacity of a country to finance a payments deficit depends on the level of its reserve holdings and the availability of finance from the private international banks and the Bretton Woods institutions. In turn the scope for payments correction varies with the capacity for adjustment within the economy. This depends on a number of factors, including the extent to which domestic consumption goods may be switched into exports, and more generally, the scope for short-run export expansion and efficient import substitution; the degree of money illusion; the flexibility of domestic economic policy; the level of infrastructural investment; and, related to the above, the values of export supply and import and export demand price elasticities.

For example, with low elasticities and a high degree of real wage resistance the scope for balance of payments adjustment will be strictly constrained. Clearly to the extent that the adaptability of an economy is positively related to its level of economic development it is likely that developing countries will encounter more difficulty in coping with balance of payments problems than do developed economies. However, the presumption may not always be valid. It is not difficult to think of developing countries that have been characterised by their ability to respond to a changing world economic environment. Similarly, one can think of developed countries that find change difficult to accommodate because of their stymied socio-economic and political systems. An important feature of the 1970s and 1980s has been the growing irrelevance of a categorisation of countries that lumps all developing countries together. Such an approach may be unhelpful. Disaggregation is therefore vitally important. This may be based on various economic indicators including *per capita* income, the degree of export diversification, the nature and pattern of trade, and geographical location (see Table 1 again). Against this background, a number of indicators may be assembled to provide some reflection of the size and nature of a country's or countries' payments problem.

5. Balance of Payments Trends

Examination of the balance of payments statistics in Table 3 reveals that during the 1980s most developing countries, with the exception of the newly industrialising Asian economies, experienced quite persistent current account deficits. When expressed as a percentage of GDP this tended to be much greater for the low-income countries (LICs) than for the better-off developing countries. Data also reveal that declines in trade, and particularly import volumes, have not been uncommon especially again in LICs. To the extent that there have been improvements in the trade balance of highly-indebted developing countries these have frequently occurred at a lower level of trade.

Of course, the statistical state of the current account balance of payments is an imperfect guide to the size of payments problems. Disequilibria may be temporary and self-reversing; capital flows may allow a current account deficit to be sustained; and *ex post* payments data may conceal the extent to which other macroeconomic policy objectives have been subjugated. Moreover, experience in the 1970s and 1980s clearly demonstrates that the financing of trade and non-factor service deficits by private borrowing will be unsustainable unless accompanied by a large enough increase in the capacity to meet the related debt obligations.

Table 3: Developing countries: summary of payments balances on current account, 1983-92†
(in billions of US dollars)

	1983	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Developing countries	**-56.9**	**-26.6**	**-22.9**	**-43.4**	**-0.7**	**-16.4**	**-14.3**	**-8.2**	**-94.7**	**-69.5**
By region										
Africa	-12.5	-7.7	-1.3	-10.8	-5.1	-10.6	-8.0	-4.0	-6.3	-5.6
Asia	-13.6	-3.8	-13.9	3.9	20.2	8.5	-1.0	-3.7	-19.2	-15.5
Europe	-2.3	-0.3	-0.6	-1.3	1.2	7.2	3.6	-2.3	-7.7	-8.8
Middle East	-19.4	-13.9	-5.0	-18.4	-7.2	-10.2	-0.6	13.8	-49.3	-25.3
Western Hemisphere	-9.1	-0.9	-2.2	-16.8	-9.7	-11.3	-8.4	-12.0	-12.3	-14.3
By predominant export										
Fuel	-15.9	-0.9	1.8	-33.0	-8.1	-23.6	-6.4	8.6	-57.2	-26.7
Non-fuel exports	-41.0	-25.7	-24.8	-10.4	7.4	7.2	-7.9	-16.8	-37.5	-42.8
Manufactures	-10.7	2.4	-7.4	4.5	23.1	25.2	13.6	1.0	-16.6	-19.7
Primary products	-14.8	-13.5	-10.5	-11.6	-14.6	-13.9	-13.5	-14.1	-16.9	-17.2
Agricultural products	-11.4	-10.0	-8.1	-8.0	-11.9	-11.1	-11.2	-10.6	-11.9	-12.1
Minerals	-3.4	-3.4	-2.4	-3.6	-2.7	-2.9	-2.3	-3.5	-5.0	-5.1
Services & private transfers	-6.2	-7.3	-6.4	-5.1	-5.1	-6.0	-5.9	-1.9	-1.5	-3.5
Diversified export base	-9.2	-7.3	-0.4	1.8	4.0	1.9	-2.1	-1.9	-2.5	-2.4
By financial criteria										
Net creditor countries	-1.2	3.3	11.2	6.5	14.5	5.3	13.0	24.7	-36.0	-8.8
Net debtor countries	-55.8	-29.9	-34.2	-49.9	-15.2	-21.7	-27.2	-32.9	-58.7	-60.7
Market borrowers	-9.8	2.6	-8.1	-15.9	9.9	6.7	1.6	-4.1	-19.5	-23.3
Diversified borrowers	-28.7	-17.6	-12.3	-15.3	-10.8	-11.3	-12.2	-22.3	-26.6	-19.6
Official borrowers	-17.3	-14.9	-13.7	-18.6	-14.3	-17.1	-16.7	-6.5	-12.6	-17.8
Countries with recent debt-servicing difficulties	-31.4	-14.4	-10.1	-34.6	-16.6	-19.8	-16.8	-19.1	-29.3	-34.6
Countries without debt-servicing difficulties	-24.3	-15.5	-24.1	-15.3	1.4	-2.0	-10.4	-13.8	-29.5	-26.1
Miscellaneous groups										
Sub-Saharan Africa	-5.7	-3.1	-3.5	-5.7	-6.2	-7.5	-7.1	-8.0	-8.3	-7.9
Twelve major oil exporters	-20.3	-5.5	0.6	-27.9	-8.8	-18.4	0.6	17.3	-51.4	-17.9
Net debtor fuel exporters	-10.3	2.8	-0.2	-23.2	-4.6	-18.8	-8.0	-4.9	-13.2	-8.7
Four newly industrialising Asian economies	1.6	6.6	10.2	23.0	30.1	27.4	22.1	12.9	8.1	9.9
Small low-income economies	-6.2	-7.0	-7.4	-7.2	-8.3	-10.1	-10.9	-11.3	-11.4	-11.1
Fifteen heavily indebted countries	-14.9	-1.0	0.3	-17.6	-8.4	-10.1	-6.7	-11.9	-14.3	-17.1

Note: † Including official transfers.

Source: *World Economic Outlook*, IMF, Washington, May 1991.

The nature of the international economy may dictate that such capacity has to be created by means of compressing imports. The policies through which this is achieved, although statistically strengthening the balance of payments, are likely to damage aspects of domestic economic performance in the short run and quite possibly balance of payments performance in the long run.[5]

Although there are significant differences to be found between different groupings of developing countries and different time periods, the empirical evidence generally supports the claim that developing countries have experienced relatively severe balance of payments problems by comparison with the rest of the world. This conclusion is superficially confirmed by the evidence presented earlier showing drawings on IMF resources. A prerequisite for Fund support is the existence of a balance of payments need, and the evidence suggests that recently it has been only in developing countries that this need has reached proportions where Fund assistance was warranted.

6. Commodity Terms of Trade, Export Concentration and Export Stability

The prolonged downward trend in the price of primary commodities relative to manufactures has for a long time been claimed to present developing countries with particular problems. Table 4 provides evidence on the terms of trade of developing countries and again shows the dangers of generalisation. For some LDCs which export manufactures the terms of trade have improved whereas for others such as those in sub-Saharan Africa adverse movements in their terms of trade have been particularly marked. For these economies what is happening to primary product prices is of particular relevance to developing countries given their degree of export concentration on such products. UNCTAD data covering 1982-1984 show that for 58% of all developing countries, primary products made up more than 50% of their total exports, but that 71% of low-income countries possessed this degree of export concentration.

Moreover, while a downward trend in the commodity terms of trade of developing countries (with no offsetting improvement in their income terms of trade) suggests that they will encounter a secular deterioration in their balance of payments, the problems of managing the related difficulties are exaggerated by short-term instability about this trend. Although the subject of extended academic debate, the extent to which export instability creates a special problem for developing countries has long been recognised institutionally by the introduction within the IMF of what was the Compensatory Financing Facility and the European Community's Stabex Scheme. However, recent evidence suggests that while such instability declined during the 1960s, it increased subsequently. This

---

5 Khan and Knight (1988) for example on the basis of a study of 34 developing countries have identified a strong positive correlation between the availability of imports and export volumes. In addition to this, Otani and Vilaneuva (1990) find strong quantitative support for the view that export performance has a dominant influence on economic growth in developing countries.

Table 4: Developing countries: terms of trade, 1973-92
(annual changes, in percent)

	Average† 1973-82	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Developing countries	**6.9**	**-3.6**	**1.4**	**-2.0**	**-16.3**	**1.5**	**-3.4**	**1.9**	**0.2**	**-2.5**	**0.4**
By region											
Africa	5.6	-2.0	0.3	-0.8	-25.2	0.7	-5.2	0.2	-1.8	-9.0	0.6
Asia	-0.6	0.8	1.8	-0.5	-3.6	1.2	0.8	0.8	-1.0	-0.4	0.6
Europe	-0.7	-1.7	-0.9	-0.6	2.2	-	1.7	0.4	-2.1	3.8	-0.5
Middle East	17.6	-8.4	0.3	-3.7	-44.3	8.6	-19.0	9.6	8.6	-4.1	-0.5
Western Hemisphere	2.8	-4.7	5.1	-5.2	-10.5	-3.2	-2.5	0.4	-1.5	-8.1	0.4
By predominant export											
Fuel	17.5	-8.9	0.5	-4.8	-46.5	8.7	-18.2	10.6	11.0	-12.2	0.9
Non-fuel exports	-1.0	0.7	2.0	-0.6	1.0	-1.0	1.7	-0.5	-2.9	0.2	0.2
Manufactures	-2.2	-0.2	1.1	0.2	3.3	-0.5	1.3	0.5	-1.7	1.5	0.5
Primary products	-0.6	3.1	4.9	-5.5	-4.5	-8.7	4.7	-1.5	-8.1	-7.3	-1.1
Agricultural products	-0.6	2.8	7.3	-5.6	-2.4	-11.8	0.3	-3.2	-7.0	-6.2	-0.5
Minerals	-0.7	3.7	0.3	-5.5	-9.1	-1.1	13.7	1.7	-10.3	-9.8	-2.4
Services & private transfers	-0.1	0.8	1.0	1.3	-1.2	-5.3	2.0	-3.8	-4.7	-1.6	-0.5
Diversified export base	0.8	1.4	4.2	-1.8	-5.0	4.4	2.2	-3.6	-5.4	-1.3	-
By financial criteria											
Net creditor countries	17.2	-6.0	-0.2	-3.1	-35.3	8.7	-13.3	6.2	9.8	-2.5	0.1
Net debtor countries	3.0	-2.2	1.9	-1.7	-11.0	-0.5	-1.0	0.9	-1.9	-2.6	0.4
Market borrowers	2.1	-3.2	2.0	-1.5	-8.5	-0.5	-0.7	1.7	-1.4	-2.5	0.6
Diversified borrowers	4.2	-0.7	1.8	-2.7	-11.5	0.3	-2.1	-1.0	-3.0	-0.7	0.2
Official borrowers	3.8	-0.9	1.3	-1.2	-20.1	-2.7	-1.5	0.3	-1.6	-7.9	0.7
Countries with recent debt-servicing difficulties	4.1	-3.0	2.7	-3.3	-15.6	-0.9	-3.0	0.7	-2.4	-5.5	0.1
Countries without debt-servicing difficulties	1.1	-1.4	1.4	-0.3	-7.2	-0.3	0.3	1.0	-1.7	-1.1	0.6
Miscellaneous groups											
Sub-Saharan Africa	-0.3	1.4	5.6	-0.9	-14.6	-8.7	-0.1	-0.8	-6.4	-8.1	1.1
Twelve major oil exporters	18.9	-9.0	0.7	-4.8	-49.8	9.9	-19.8	12.2	11.4	-11.8	0.8
Net debtor fuel exporters	13.9	-8.4	0.7	-4.8	-44.0	6.6	-13.4	8.7	8.7	-16.7	1.7
Four newly industrialising Asian economies	-2.7	1.0	0.7	1.8	2.7	0.5	0.9	2.4	-0.6	0.5	0.7
Small low-income economies	-1.0	6.8	7.9	-1.9	-8.8	-3.7	1.2	-2.6	-7.0	-4.2	-2.0
Fifteen heavily indebted countries	3.8	-4.3	4.6	-5.5	-14.5	-1.6	-3.0	1.1	-1.7	-7.5	0.8

Note: † Compound annual rates of change. Excluding China.

Source: *World Economic Outlook*, IMF, Washington, May 1991.

conclusion appears to hold even when different measures of instability are used, and to apply also to Asian and Western Hemisphere developing countries.[6]

7. Reserve Holdings and Adequacy

On the basis of the ratio between international reserves and imports, it transpires that developing countries have generally held more reserves than industrial countries. For the period 1980-89 the average ratio of reserves to imports (based on non-gold reserves) for industrial countries was 9.5%, whereas that for developing countries was 17.2. However, as Table 5 shows this average conceals significant dispersion amongst developing countries. Yet again it is the LICs that emerge as being in the weakest position with a reserves ratio of little more than a third of the developing country average in 1990. Even this level of disaggregation is misleading. Looking at non-gold reserves and the associated ratios for Africa in 1988 reveals that these ranged from 105.8% for Botswana down to 0.3 for Congo. The lower holdings of reserves in many of the poorest developing countries cannot be explained in terms of smaller needs for reserves. Since they are faced with payments instability, high adjustment costs, impaired access to international credit and relatively inflexible exchange rates, it can be argued that they need relatively high reserve ratios. While the high opportunity cost of holding reserves encourages such developing countries to economise on them, there is some *prima facie* evidence of reserve inadequacy.[7] While systemic reserve adequacy is not the problem that it was in the 1960s, reserve adequacy remains an important problem for many developing countries.

This is confirmed by studies that attempt to estimate the future financing needs of developing countries. Clearly such studies need to make assumptions about export and import growth and therefore also implicitly or explicitly about the nature of underlying trade functions. However, the existence of a financing gap for the developing world appears to be quite resilient to modified assumptions concerning both the nature of these functions and future economic growth in the OECD, interest rates and terms of trade. Moreover, given reasonable assumptions about the future availability of commercial credit to the developing world, it seems likely that the need for finance will translate into a need

---

6 Love (1990) estimates instability based on linear, logarithmic and moving average trends across a sample of 65 developing countries as well as for a more restricted sample of 58 developing countries. Taking the larger sample and a logarithmic trend, for example, he finds that the mean instability index rose from 0.155 in 1960-71, to 0.256 in 1972-84. The observed increase in export instability for developing countries in both Asia and the Western Hemisphere is perhaps particularly interesting since it is frequently assumed that export diversification and a move away from primary products and into manufactures will solve the problem. Certainly the conventional view has been that poorer developing countries with a higher concentration on primary products will be more vulnerable to export instability. Helleiner (1983a), for example, notes that during the 1970s it was the least developed countries that experienced the highest levels of instability in their terms of trade, the purchasing power of their exports and their import volume.

7 See Bird (1978) and Chrystal (1990) for a review of the theory of the demand for reserves. Bird also relates this theory to the developing countries.

Table 5: Developing countries: ratios of reserves to imports of goods and services, 1983-92[a, b]
(percent)

	1983	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Developing countries	**21.9**	**23.2**	**26.7**	**27.6**	**32.4**	**27.4**	**26.8**	**27.9**	**26.3**	**26.5**
By region										
Africa	8.4	8.0	11.5	10.6	12.0	10.6	12.1	12.1	12.0	12.5
Asia	24.1	25.9	27.8	36.0	42.2	35.8	32.9	33.0	32.4	32.2
Europe	10.9	11.9	11.3	12.8	13.1	15.0	20.9	21.0	21.6	22.1
Middle East	28.6	25.7	34.8	30.6	36.3	28.7	27.5	29.1	17.6	18.1
Western Hemisphere	22.6	30.3	32.0	25.7	28.3	20.4	20.3	25.0	27.2	28.0
By predominant export										
Fuel	27.1	27.7	34.5	28.5	37.0	24.2	24.0	25.5	19.3	21.1
Non-fuel exports	19.1	21.0	23.3	27.2	30.9	28.4	27.7	28.6	28.3	28.1
Manufactures	21.5	25.5	26.2	31.3	37.2	33.2	32.1	32.6	31.7	31.2
Primary products	18.0	18.8	24.8	24.4	21.4	22.8	22.2	26.0	22.1	18.6
Agricultural products	15.9	15.7	21.4	21.9	18.5	20.4	18.6	21.4	16.8	12.2
Minerals	23.2	26.5	33.5	31.0	28.9	29.1	30.9	37.2	34.5	33.3
Services & private transfers	19.4	13.7	15.2	16.1	16.6	15.3	15.7	16.3	23.0	28.6
Diversified export base	11.0	9.8	13.7	18.0	17.8	15.0	14.8	15.0	17.1	17.8
By financial criteria										
Net creditor countries	36.1	35.9	54.2	70.9	92.2	73.6	65.3	63.1	47.6	48.2
Net debtor countries	17.9	20.0	20.9	19.5	20.9	18.7	19.5	21.7	22.2	22.3
Market borrowers	21.7	25.2	25.3	22.6	24.3	20.9	21.2	24.9	25.7	25.7
Diversified borrowers	15.1	15.5	17.5	17.5	17.3	16.1	17.6	14.8	15.0	15.3
Official borrowers	11.4	11.1	12.1	12.4	15.2	14.5	15.8	19.6	18.9	18.4
Countries with recent debt-servicing difficulties	13.5	18.1	19.1	15.7	17.9	14.1	15.8	19.3	20.2	20.1
Countries without debt-servicing difficulties	22.2	21.7	22.4	22.6	23.2	21.9	21.9	23.1	23.4	23.5
Miscellaneous groups										
Sub-Saharan Africa	8.9	9.3	12.4	14.0	14.9	15.1	16.2	14.1	13.1	11.8
Twelve major oil exporters	28.3	28.6	38.4	31.0	37.5	27.3	27.2	28.7	19.1	21.9
Net debtor fuel exporters	19.5	24.4	25.7	20.4	29.9	15.7	18.1	20.5	23.4	25.0
Four newly industrialising Asian economies	20.4	22.7	30.9	45.6	52.8	44.5	39.6	36.8	35.9	36.4
Small low-income economies	14.5	11.9	12.5	13.1	12.2	11.4	11.6	9.9	6.5	3.1
Fifteen heavily indebted countries	17.7	25.4	27.0	22.6	24.5	18.4	19.6	23.4	24.8	25.7

Note: (a) For this table, official holdings of gold are valued at SDR 35 an ounce. This convention results in a significant underestimate of the reserves of those groups of countries that have substantial holdings of gold.
(b) Ratio of year-end reserves to imports of goods and services in the year indicated.

Source: *World Economic Outlook*, IMF, Washington, May 1991.

for official liquidity. Failure to meet this need will force developing countries to earn reserves through payments adjustment.

8. Access to International Financing

Encountering a payments deficit, a country has two financing options. One is to run down reserves. The second is to borrow from international sources. Table 2 above gives information on recent trends in financial flows between developing and developed countries. Certain features are particularly noteworthy. The first is the rapid reversal in short-term bank lending as between 1981 and 1983. The second is the fairly persistently low level of longer-term bank lending to the developing world. The third is the shrinking net transfer and eventual negative net transfer associated with export credits; while the fourth is the very significant reversal in the size and sign of resource transfers between the IMF and the developing world. All of the above point to a general impairment in the access of developing countries to sources of international finance. The only counter to this trend is the apparent rise in direct investment in developing countries by OECD countries.

Moreover, there have been quite dramatic changes in the relative importance of individual sources of finance. During the 1980s aid almost doubled in relative importance. Direct investment rose from 7.8% of total net resource flows in 1985 to almost 20% in 1989. Meanwhile, bank lending fell from just over 38% in 1981 to just over 7 in 1989.

However, the changes in the relative importance of individual sources of finance have to be set against a background which shows both a very marked decline in total net resource flows to developing countries and the prospect of a significant financing gap in the 1990s. As things stand, it seems more likely that this *ex ante* gap will be closed *ex post* by a reduction in the demand for finance associated with the pursuit of contractionary demand management policies in developing countries, than by a further expansion in foreign aid and direct investment or a reversal in the pattern of bank lending.

It also needs to be recognised that the availability of financing has been adversely affected by capital flight. Although studies have shown that it is difficult to give precise figures on its size, most agree that capital flight has constituted an important element in the financing problems of certain developing countries and that the repatriation of such capital could be of quantitative significance in alleviating the future financing constraints that they face. Attention may therefore need to be paid to the design of preferential exchange rate and taxation schemes and measures to raise relative creditworthiness and the risk-adjusted expected net yield on domestic as compared with foreign assets.

9. Debt

The debt situation of the developing world is summarised by Table 6. It may be seen that a conventional debt indicator such as the debt service ratio provides little evidence that the problem has been overcome. Indeed for low-income countries such as those in Sub-Saharan Africa the debt problem has become more pronounced. By 1990 the ratio of the total debt stock of SSA as against exports was 370%, as compared with that for Western Hemisphere LDCs of 255%. Taking total debt relative to GDP gives a ratio in SSA countries which is more than twice that to be found in developing countries of the Western Hemisphere. Moreover, the LDC debt situation has affected economic performance in indebted countries. The pursuit of adjustment programmes has often implied a sharp decline in the rate of economic growth and, given population growth, falling or stagnating living standards. Investment has not been insulated from adjustment, with domestic saving being channelled into servicing external debt. Future growth performance has therefore been undermined. A strengthening in the balance of payments has often been engineered by inducing a cut-back in imports that exceeds the fall in exports; even though imports constitute vital inputs into the generation of economic growth and exports, and therefore an economy's future capacity to service debt.

While Table 6 shows that even with a relatively low level of borrowing from private capital markets during the 1970s and 1980s LICs have not escaped debt problems, it must also be recognised the debt indicators taken in isolation may be misleading (see, for example, Bird, 1985). Thus, although in terms of debt ratios, LICs have encountered problems often more acute than those encountered by the highly-indebted countries; with a high proportion of the debt being official, such comparisons may overstate the relative size of their problems. It can, however, hardly do other than imply that their balance of payments and economic development has been severely constrained.

10. The Scope for and Cost of Adjustment

The factors discussed above combine to suggest that, compared with developed countries, many developing countries will be more likely to encounter balance of payments deficits and will find it more difficult to finance these either by running down reserves or by international borrowing. They will therefore be under relatively great pressure to eliminate their deficits through adjustment. But what is the scope for adjustment within developing countries, and at what cost can it be achieved?

There is a reasonable presumption that most poor countries possess a relatively low degree of structural flexibility. Markets may often be ill-developed and price elasticities low, with the result that the scope for switching resources rapidly into the production of traded goods will be strictly limited. In a global economic environment that is hostile to export expansion, LDC governments possess few alternatives to a deflationary programme of balance of payments stabilisation. The costs of such programmes on economic growth and future export performance have already been mentioned. But, in addition, the imposition of such economic costs have been shown to put considerable strain on fragile

Table 6: Developing countries: debt service ratios, 1983-92[a, b]
(in percent of exports of goods and services)

	1983	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Developing countries	**18.4**	**19.7**	**21.3**	**22.7**	**20.5**	**20.0**	**16.8**	**15.5**	**16.1**	**14.8**
By region										
Africa	22.7	26.3	28.1	28.7	25.1	31.4	27.5	26.0	28.9	24.5
Asia	12.2	12.8	15.3	15.2	14.8	11.1	10.5	9.0	8.1	8.2
Europe	20.3	20.2	24.5	27.3	23.7	24.1	22.2	20.5	24.1	21.4
Middle East	7.9	9.6	10.0	13.4	13.1	11.2	12.0	13.7	14.9	11.6
Western Hemisphere	42.5	42.0	41.2	44.9	40.2	47.3	33.2	29.3	32.8	31.4
By predominant export										
Fuel	15.5	18.8	20.2	24.3	24.5	26.3	21.1	18.6	20.8	18.2
Non-fuel exports	20.3	20.2	21.9	22.1	19.2	18.2	15.5	14.4	14.7	13.8
Manufactures	17.2	16.7	18.1	19.0	16.3	15.1	12.2	10.0	11.0	11.0
Primary products	38.3	36.9	35.9	38.2	33.1	34.5	29.4	31.7	32.3	30.6
Agricultural products	40.6	38.7	38.5	42.7	36.7	38.3	32.5	36.3	34.8	32.4
Minerals	33.2	32.8	29.8	27.1	25.5	26.2	23.1	21.8	26.7	26.6
Services & private transfers	20.9	23.5	23.6	26.6	26.6	17.1	23.5	37.6	35.1	24.0
Diversified export base	18.2	20.7	27.4	21.4	20.1	24.3	20.9	16.3	14.4	13.3
By financial criteria										
Net creditor countries	4.4	5.1	4.7	5.9	5.6	4.2	4.3	3.3	3.7	3.9
Net debtor countries	23.5	24.3	26.1	27.0	24.3	23.8	19.9	18.5	19.0	17.3
Market borrowers	25.1	25.1	26.2	26.5	23.3	22.4	17.0	14.5	14.7	14.4
Diversified borrowers	19.7	21.7	25.3	26.8	26.0	28.9	26.7	25.8	25.5	22.3
Official borrowers	23.9	25.7	27.1	29.9	25.8	21.0	22.4	26.8	31.4	24.2
Countries with recent debt-servicing difficulties	31.8	33.1	33.1	35.6	31.3	35.6	27.1	26.8	30.8	26.3
Countries without debt-servicing difficulties	15.6	16.3	19.7	20.5	19.4	16.3	15.5	13.7	12.7	12.3
Miscellaneous groups										
Sub-Saharan Africa	21.3	23.7	23.9	23.5	21.9	23.3	20.4	24.5	26.7	25.6
Twelve major oil exporters	10.1	13.1	14.6	19.5	18.2	19.4	17.0	15.9	18.2	15.7
Net debtor fuel exporters	30.5	34.0	35.1	42.1	41.0	44.7	35.1	31.8	35.7	28.8
Four newly industrialising Asian economies	8.8	9.2	9.3	9.7	10.7	5.7	4.5	3.3	3.1	3.1
Small low-income economies	22.7	26.1	27.8	28.9	28.4	27.7	26.3	26.9	26.6	25.6
Fifteen heavily indebted countries	41.0	40.8	40.0	44.0	38.0	44.8	32.2	27.9	32.5	29.6

Note: (a) Excludes service payments to the Fund.
(b) Interest payments on total debt plus amortization payments on long-term debt only. Estimates for the period up to 1990 reflect debt service payments actually made. The estimates for 1991 and 1992 take into account project exceptional financing items, including accumulation of arrears and rescheduling agreements. In some cases amortization on account of debt reduction operations is included in total amortization payments.

Source: *World Economic Outlook*, IMF, Washington, May 1991.

democratic political systems, and it is important therefore not to lose sight of the political costs of adjustment.[8] The capacity for short-run adjustment is likely to be particularly constrained in LICs where economies are inflexible, *per capita* income is at a low level, technical competence is limited, and political support for the government is tenuous.

An overall assessment of the above criteria reveals again that it is very unwise and inappropriate to group all developing countries together. Different developing countries perform differently under different criteria. However, the evidence does suggest that many parts of the developing world, and perhaps in particular the poorest parts, have experienced: structural weakening in their balance of payments; instability associated with export concentration; low levels of both reserves and access to finance; and severe adjustment problems. There is then justifiable cause for treating such countries as a special case within the international monetary system - a cause which is only enhanced by considerations of international equity.

Although the early 1980s were dominated by concerns over the financing and adjustment problems facing middle-income countries, concern has more recently also been directed towards what are the often more intractable problems facing the poorest of the poor countries. As the empirical evidence quoted in this chapter shows, the IMF has been involved in both groups.

11. The Highly Indebted Developing Countries and the Fund's Involvement

While losing many of its systemic functions, the Fund's operations during the 1980s became dominated by dealing with the debt difficulties faced by a relatively small group of highly indebted developing countries. All the Fund's lending was to developing countries, and the majority of it was to the highly indebted countries (HICs), even though the majority of programmes remained with low-income countries (LICs). The Fund became depicted as a development agency offering concessional assistance to developing countries. Even some of its staff bemoaned what they saw as the loss of its monetary characteristics and consequently of much of its financial reputation.[9]

The least subtle criticisms of this type tended to use the phrase 'development agency' almost as a term of abuse. From this quarter the Fund became exposed to all the negative remarks made by critics of foreign aid. What the Fund was doing was perceived as being bad in and of itself. The more subtle criticism was that the Fund had largely been pushed by political pressure into lowering its own financial standards.

---

[8] For a further enunciation of the problems of adjustment in developing countries, see Helleiner (1986). The argument that adjustment has a particularly adverse effect on the poor is to be found in Helleiner (1987). Discussion of the political costs of stabilisation may be found in Bienen and Gersovitz (1985), Haggard (1985), Nelson (1984; 1989), Sidell (1988), Haggard and Kaufman (1989), Kaufman (1988) and Stallings and Kaufman (1989).

[9] See, for example, Finch (1988).

The criticism here was not so much that development assistance is inappropriate, but rather that the IMF is an inappropriate institution through which to give it. This criticism views it as important to retain the revolving character of Fund resources, as well as the Fund's short-term monetary perspective. These are features, so it is claimed, that will be lost if the Fund is forced to lend over the long-term on the basis of unviable programmes and unachievable targets. The plea has been strongly articulated to 'let the IMF be the IMF' (Finch, 1988). An extension of this argument is that unsuccessful programmes will damage the reputation and credibility of the Fund and adversely affect its catalytic role.

The claim that financial standards have been sacrificed is intimately related to the debt crisis. In essence it is that the governments of countries in which the international banks are located, and in particular the United States, encouraged the Fund to lend money to the highly indebted countries in order to reduce the probability of default which would be to the disadvantage of those banks. In the early years of the debt crisis, the argument could be made that this was sustaining the stability of the international banking system. But as the banks themselves adjusted to the debt crisis by reducing their exposure, strengthening their capital adequacy, provisioning, and expanding other lines of business, this systemic argument for lending by the IMF disappeared.

Even critics who approach the issue from a rather different angle, sharing more in common with the 'traditional' criticisms of Fund conditionality, have concluded that the main beneficiaries of Fund lending to highly indebted developing countries during the 1980s were the international banks. Simply put, the claim is that it was positive net transfers from the Fund that financed negative net transfers with the banks. This is a claim that is at least superficially consistent with the evidence at aggregate level, but it is not an interpretation that finds ready acceptance - publicly at least - inside the Fund, where the accusation that it had bailed out the banks has been, often staunchly, rejected.[10]

Yet the criticism that the Fund has failed in its dealings with HICs during the 1980s has more dimensions to it than this. First, there is the argument that, along with others, the Fund misinterpreted the nature of the debt crisis by treating it either as a liquidity crisis or as one of short term internal adjustment rather than a more deep-seated problem of structural adjustment which required important supply side responses as well as the management of demand. This meant that the Fund opted to support new financing which assisted countries in meeting their outstanding debt servicing obligations but which did little to restore medium-term viability to their balance of payments.

The nature of the programmes supported by the Fund has, in relation to this, been criticised for an over-emphasis on devaluation, resulting from a desire to strengthen the tradeables sector of the economy and thereby to facilitate debt servicing, and an over-

---

[10] See, for example, Nowzad (1989), who argues that 'the Fund is not (as some have suggested) involved for any particular partisan reason, such as bailing out the banks, or enforcing the policies of creditor countries . . .' (p 120).

ambitious attempt to achieve stabilisation and liberalisation simultaneously.[11] A long-standing worry associated with the use of devaluation is that a shift in the nominal exchange rate will fail to alter the real exchange rate because of the inflation it generates. Devaluation is seen as destroying the 'nominal anchor', or to use the older jargon 'reserve discipline', that a fixed exchange rate provides. Is this not a particular worry in HICs where the inflation record is frequently very poor and where the reputation of governments as inflation fighters is often weak? Just as the counter-inflationary merits of fixed exchange rates were being acknowledged and accentuated in the context of the European Monetary System, were they not being neglected by the IMF?

Critics of the Fund's approach to conditionality within the HICs have argued that whereas devaluation may certainly be appropriate in some circumstances; where, for example, it is designed to unify the exchange rate, respond to an external shock that has altered the equilibrium real exchange rate, or negate the impact of monetised fiscal deficits on the external accounts; it may be inappropriate where the fiscal deficit is under control and where the income redistributive effects of devaluation, particularly in terms of lowering the urban real wage, spark off political unrest and measures to restore real wages. In these circumstances, the price of non-tradeables may also rise with the result that the internal terms of trade or relative price effect of devaluation is lost. The dangers of a vicious circle, whereby inflation leads to devaluation which then leads to further inflation, have long been acknowledged in Latin American economies where there is a legacy of rapid inflation and a low degree of money illusion.[12] Indeed in the context of forward looking models of economic policy which emphasise the importance of the government's reputation, the vicious circle can take on an additional twist. Here the use of devaluation damages a government's anti-inflation credentials; private agents anticipate devaluation and mark up prices ahead of it; the inflation which is thereby caused, itself forces the government to devalue. Expectations become self-fulfilling and generate their own internal dynamics.

The Fund has also been seen as being over-ambitious. The stabilisation and liberalisation objectives of the Fund have been interpreted as paying inadequate regard to the potential inconsistencies that may exist between them. Within developing countries, in particular, revenue from tariffs may be an important element in total government income. Tariff

---

11 For a clear critical appraisal of the Fund's involvement in HICs which develops many of the issues introduced here, see Sachs (1989a and b) and Edwards (1989).

12 See, for example, Maynard and von Ryckeghem (1976). There is now a huge literature which deals with the question of devaluation in developing countries, and a number of reviews of this literature. For a brief review of the reviews, see Bird (1990) which also provides a broader survey of developing countries within the international financial regime. Whatever the problems with devaluation, it needs to be assessed against the alternatives. Here there is considerable evidence to suggest that devaluation is often the least cost option and that there are significant costs associated with maintaining a disequilibrium real exchange rate (Edwards, 1988). A related criticism of the Fund, however, is that once having encouraged the establishment of an equilibrium real exchange rate, it has done insufficient to encourage the maintenance of that rate through the use of some form of sliding parity.

reduction can therefore exert a significant adverse impact on the fiscal balance unless this source of revenue is replenished by other tax changes.

Evidence suggesting a falling rate of success in achieving programme targets is cited as supporting the claim that Fund-supported programmes in HICs have been unrealistic.[13] In the case of intermediate targets, relating for example to aspects of credit creation, such a record reflects an increasing problem of non-compliance. As is shown in Working Paper 47, countries have often simply not complied with strategic elements in Fund-supported programmes. Some authors have again sought explanation of this phenomenon in terms of the specifics of the debt problems with which HICs have been faced; the argument being that Fund-supported programmes have offered little domestic rate of return. The principal beneficiaries have instead been private foreign creditors. The distribution of the costs and benefits of the programmes has established a set of incentives that undermines compliance. The debt overhang has had the effect of weakening Fund

---

[13] See Edwards (1989) for a presentation of the evidence. Edwards examines 34 upper tranche programmes approved in 1983 with developing countries, the vast majority of which had serious debt problems. He finds that 'almost every programme contained credit ceilings and a devaluation component' (p. 32), arguing that 'this contrasts sharply with previous Fund programmes'. Edwards uses two methods for assessing the programmes. The first is a simple before and after comparison. He finds that 'on average, the current account improved somewhat while inflation increased quite significantly. With respect to output growth, after a steep reduction in 1983, there was a small improvement in 1984 and 1985'. He notes that 'countries that did not have Fund programmes also experienced major current-account improvements' (p. 34). Second, he compares targets and outcomes. His results show a rather low rate of compliance, both in absolute terms and by comparison with previous periods.

Sachs (1989a) argues that 'the evidence presented in the IMF's 1988 review of conditionality also suggests that, since 1983, the rate of compliance has been decreasing sharply, down to less than one-third compliance with programme performance criteria in the most recent years' (p. 107). Edwards notes that 'a serious consequence of the low rate of compliance has been that in recent years there has been a significant increase in the number of programmes that have been interrupted as well as in the number of waivers approved by the Fund' (p. 36). Of course, the evaluation of IMF-supported programmes is fraught with methodological problems.

Khan (1990) reviews these problems in considerable detail but, on the basis of his own tests covering Fund-supported programmes during 1973-88, concludes that they have generally been associated with an improvement in the balance of payments. The improvement was particularly marked for the current account, where the implementation of a programme led, on average, to about a 1 percentage point improvement in the ratio of the current account to GDP. In contrast to Edwards and Sachs, Khan claims that the evidence indicates that Fund-supported programmes have been more effective in improving the external balance in the 1980s than they were in the 1970s. Indeed he suggests that while 'we do not as yet have the final word on the effects of programmes, . . . it does appear that these effects are more positive than has previously been reported' (p. 224). Although Khan does not take into account the degree of policy implementation (since he maintains that it is 'not easy' to do so), he suggests that exclusion of this factor may lead to an underestimation of effectiveness. 'Had the tests been restricted to only those countries that successfully implemented he recommended policies, it is conceivable that an even more positive picture would emerge' (p. 223). This view again differs from that of Edwards and Sachs who argue that the degree of compliance should itself constitute a measure of effectiveness. Clearly there is still some way to go before a broad consensus emerges on the effectiveness of Fund-supported programmes.

conditionality through acting as a tax on necessary reforms, with one implication being that it has become increasingly difficult to muster the necessary domestic political support for such reforms.[14] In this context it is claimed that debt relief is needed to create the necessary incentive structure to adjust. The Fund has been criticised for failing to recognise and acknowledge this. Indeed, the Fund's policy of 'assured financing', whereby IMF support was predicated on countries continuing to meet their outstanding obligations to the banks, has been interpreted as systemically discouraging the provision of debt relief by the banks and thereby impeding the resolution of the debt crisis. At the beginning of the debt crisis, the Fund had some success in encouraging new commercial money inflows by making these a pre-condition of Fund support, but this insistence faltered as the banks' reluctance to lend became more pronounced.[15]

Moreover it is argued that the Fund's inappropriate approach to the debt problem was reflected in its apparent neglect of the distinction between new financing and debt reduction: a distinction which was being accentuated in the academic literature as the 1980s progressed.[16] Critics suggested that this neglect again showed the Fund as being primarily concerned with cash flow rather than medium and longer-term problems. Yet, even in a short-run context, the different expectational responses to new money and debt reduction can cause different effects; with new money leading to further indebtedness and therefore the prospects of additional domestic fiscal and monetary problems.

Statements emanating from the Fund about its own perception of its role in the debt crisis tended to side-step these analytical issues and stick with broader organisational ones, which emphasised its strategic importance as an 'honest broker' or catalyst.[17] The Fund described its objective as that of normalising creditor-debtor relations and restoring country access to sustainable flows and spontaneous lending. The means to this end were to be vigorous and sustained adjustment effort by the debtors; and a co-operative concerted approach involving creditors, the Paris Club, commercial banks and the export credit agencies. While recognising that progress had been uneven and vulnerable, by the mid-1980s the Fund was interpreting its overall record on the debt problem as 'encouraging' (Nowzad, 1989). At the same time, however, critics were assessing that, 'the IMF's recent record in the debtor countries is one of failure' (Sachs, 1989a).

Such disagreement persists because there is no universally accepted set of criteria by which the Fund may be judged. Apart from anything else, there is always the basic problem of the counter-factual: what would have happened if the Fund had done things differently? Accepting this difficulty, a superficial review of the empirical evidence

---

14 See Sachs (1989b) and Krugman (1988).

15 Thus Nowzad (1989) emphasises how the conventional relationship between the Fund and the banks was reversed in the early years of the debt crisis.

16 See again, for example, Krugman (1988).

17 Nowzad (1989) provides a typical statement.

suggests that the Fund's record in terms of dealing with the debt problem of the 1980s was, at best, mixed. Certainly it managed to help avoid a major systemic international financial failure and this was no small achievement. But, by other criteria, no substantial or sustained degree of success can be claimed. By the end of the 1980s, creditor-debtor relations had not been normalised; access to spontaneous lending had not been restored. Indeed, the credit-worthiness of the HICs, as represented by the secondary market price of their debt, had continued to fall; net transfers to HICs were still significantly negative; a concerted and co-operative approach to the debt problem had not emerged; most debt indicators failed to show any notable or sustained improvement; and macro economic performance in the HICs was poor and often deteriorating, with forward-looking indicators such as the investment ratio and import volume suggesting bleak prospects for the 1990s. Even IMF-specific indicators were discouraging with declining programme compliance, rising arrears and the increasing use of waivers. Episodic successes existed but the overall picture was not reassuring.

During a decade in which open economy macroeconomics became more sophisticated, the accusation was increasingly made that the model underpinning the Fund's operations had failed to be modified, that it was out of date and inappropriate.[18] Research of an excellent academic standard conducted within the Fund's own Research Department was, according to this view, no longer having a significant operational impact. Indeed, and again at a superficial level, the empirical evidence seemed to suggest that the favoured conventional caricature of a Fund-supported programme involving a combination exchange rate devaluation and the deflation of aggregate demand through credit control was more accurate during the 1980s than it had been before.[19]

At the same time as Fund-supported programmes were being criticised for lacking intellectual sophistication, evidence as to their adverse social and human implications was also being more systematically collected and coherently presented.[20] Increasing infant mortality and morbidity, malnutrition and falling life expectancy were now being attributed, at least in part, to IMF-backed programmes. And the design of programmes

---

[18] See Killick (1989) and Edwards (1989) for a clear statement of this view. Some elements of the newer open economy theories could be of particular relevance to the IMF. The use of waivers, precommitments and contingency lending could all have implications for the Fund's reputation and the credibility of the policies it supports. Edwards (1989) argues that 'time consistent arguments can be used to provide a firm theoretical justification for conditionality' (p. 21). Sachs (1989a) maintains that even on its own terms, the Fund's underlying theoretical model is rudimentary in assuming a fixed velocity of circulation, crude links between economic growth and imports and a fixed incremental capital output ratio. Vines (1990) complains that even the more sophisticated IMF models make assumptions and contain omissions which have important ramifications for the policy conclusions which emerge, basically serving to understate the negative output effects of Fund-supported programmes. Killick's critique is broader and suggests that the Fund has not only overlooked theoretical advances in terms of the likely effects of demand-side measures, but has also adopted a simplistic approach to analysing the supply side and the role of the state in developing economies.

[19] See the evidence presented by Edwards (1989).

[20] See, for example, Cornia, Jolly and Stewart (1987) and Demery and Addison (1987).

which emphasised reduced government expenditures rather than increased tax revenue was being seen not only as endangering important welfare schemes in developing countries, but also as reflecting the dominant current politico-economic paradigm within the developed countries, where the role of the state was under stark review. This in turn highlighted another area - the sequencing of reform - in which the Fund came in for criticism. Merely designing an appropriate programme of policies was now seen as inadequate; more consideration needed to be given to the order and inter-temporal distribution of elements of an adjustment programme, particularly as even research conducted within the Fund itself was beginning to suggest that Fund-supported programmes could have a negative effect on output at least in the short-run.[21] Earlier models which formed the basis for financial programming within the Fund, most notoriously the Polak-model, had basically assumed away such an effect by making output exogenous.

Yet even the more outspoken critics of the Fund's handling of the debt crisis suggest that its approach changed towards the end of the 1980s; particularly after Michel Camdessus took over as Managing Director in 1987. This change of approach found expression in terms of a softening attitude towards debt relief, a change in the Fund's treatment of arrears, with the Fund becoming prepared to find ways of making loans while countries were in arrears with the banks; and an increasing concern for the effects of Fund-supported programmes on vulnerable groups and the related recognition that income distributive effects might be important in determining the political, and therefore practical, feasibility of programmes.[22] Although criticisms still remained, for example that the Fund placed too much reliance on voluntary forms of debt reduction which, given the free rider problems associated with it, should instead be treated as public good, the criticisms became slightly more muted. If the Fund was still not coming up with right answers, at least, according to some critics, it seemed to be asking more relevant questions. Moreover, some of the broader criticisms relating to the input of the Research Department were suspended awaiting the impact of the appointment of a new Director. On top of this there appeared to be a growing acceptance that macroeconomic stability was a necessary precondition for sustained economic development, and this took some of the sting out of the old debate about IMF conditionality.

12. The Fund and low-Income Countries

If the Fund came in for criticism in the context of its involvement in the highly-indebted developing countries during the 1980s, it has sometimes been presented as being almost totally misplaced in the context of the low-income countries (LICs).

---

[21] See, for example, Khan, Montiel and Haque (1986) and recent criticisms by Vines (1990).

[22] See, for instance, IMF (1986) where it is suggested that 'if Fund-supported programmes imply that specific income classes (and in particular the poor) inevitably bear the brunt of the economic costs involved then those programmes would be both less acceptable and, in the long run, less effective than the available alternatives' (p. 1).

As noted earlier, by the end of 1981 the Fund was almost exclusively involved in such countries and even by the end of the decade the majority of the programmes it was supporting were with LICs. Many of its staff speak with some regret of how events have altered the focus of the Fund. They view the Fund as being well-suited for a broad systemic role and for involvement with economically sophisticated industrial countries possessing temporary payments problems. And yet what they observe is the loss of a systemic role, little involvement with industrial countries, but instead heavy involvement with developing countries which have deeply embedded, if not quasi-permanent, structural balance of payments deficits. The Fund feels organisationally uncomfortable in this role; accepting, or even suggesting, that what is needed in low-income countries may be different from what it can presently provide, given its Articles of Agreement. Basically, the Fund's view seems to be that what low-income countries frequently need is more foreign aid.

However, the argument can be overplayed. If it is a fact that 'conventional' Fund lending and adjustment programmes are inappropriate for LICs then this may not only imply that the Fund is the wrong agency to be involved, as the Fund itself would seem to believe, but also that it needs to show a greater willingness to change its normal operating procedures to accommodate the special needs of LICs. Moreover, while the Fund's own staff have to take them as given, the Articles of Agreement may be changed by the Executive Board. In any case, the Fund prefers to present itself as a balance of payments institution, and there can be little doubt that low-income countries encounter balance of payments problems. The size and nature of the payments problems of LICs were reflected by the data presented earlier as being generally greater than those in other LDCs. Given these problems and the paucity of alternative financing channels, the Fund is unlikely to be able to side-step its involvement in LICs, whatever its preference might be. While no one would disagree with the claim that the economic problems facing LICs are severe and often appear intractable, failure to search for improvement will do nothing to help.

As has been argued by critics in the case of the HICs, if the IMF is setting targets that are unachievable, then the programmes it is supporting will be unsuccessful and problems with arrears and ineligibility will follow. Moreover, the Fund will lose credibility and reputation. It is of course the loss of reputation associated with unsuccessful programmes in low-income countries which in part explains the Fund's generally unenthusiastic attitude towards lending to them.

But what is the Fund's track record in lending to LICs? Some commentators have suggested that it is likely to be poor. They argue that in low-income countries more than anywhere else it is impossible to draw a distinction between the balance of payments and development. Payments deficits are of a structural type reflecting the fact that LICs have undiversified product mixes, with a high concentration on products which generally have low price and income elasticities. Moreover, reliance on a few key exports makes LICs particularly vulnerable to external shocks and movements in the terms of trade. The resolution of these problems is a long-term process which needs to focus on the supply side of the economy. The short-run management of demand is important, but fails to capture the essence of the problem.[23] Moreover, critics suggest that Fund-supported programmes which rely on changing behaviour by means of altering domestic relative price incentives, will be at their least effective where elasticities are low and where markets are not fully developed. Thus, devaluation has been most commonly criticised in the context of LICs. With ill-developed financial markets, fiscal deficits are more likely to be monetised with consequences for inflation and the balance of payments. Tax revenue may be insensitive to changes in tax policy and government expenditure may be difficult to cut. On top of this, to the extent that Fund-supported programmes have a contractionary effect on the countries that implement them, this may be deemed to be of particular concern in the poorest countries of the world.

The evidence seems to lend some support to these concerns. For a number of years researchers have argued that the elements of adjustment programmes do not appear to discriminate between LICs and other borrowers.[24] At the same time, programmes appear to be relatively less successful in LICs than elsewhere. Indeed, some empirical studies have suggested that even on the basis of methodologies used by the Fund, there are few significant differences to be found between those low-income countries that have adopted Fund-supported programmes and those that have not.[25]

Consistent with the data on the use of Fund credit presented earlier, it also transpires that once having turned to the Fund for financial assistance, LICs find it particularly difficult to disengage themselves. The 'league table' relating to the number of consecutive years over which Fund credit has been outstanding is dominated by the low-income countries of Africa. The reality in LICs is therefore at odds with the idea of the IMF as an institution offering temporary balance of payments assistance.[26]

---

23 For examples of this literature see Killick *et al.* (1984) and Helleiner (1983b). Helleiner identifies many differences between African and Latin American economies, characterising the typical African economy as '. . . smaller, poorer, more trade-dependent, less urbanised, and less socially stratified than its Latin-American counterpart. Its agricultural sector weighs more heavily in overall output and is based much more upon small-holder production; the urban work force is not only relatively smaller and politically weaker, but also usually enjoys close links to rural families. Its financial institutions are weaker and more rudimentary. Despite the dramatic acceleration and education programmes in the post-independence period, levels of literacy and educational achievement are still relatively low in Africa. The ability to govern is limited by severe shortages of appropriate skills, not least in the area of economic analysis.' He notes that 'these intercontinental differences play upon the politics and economics of alternative stabilisation or adjustment programmes.' Killick (1989) points out that it is important not to lose sight of the fact that not all LICs are to be found in Africa. Those in Asia and the Pacific also encounter similarly severe problems.

24 See Killick *et al.* (1984).

25 See Loxley (1984) for this conclusion. Zulu and Nsouli (1985) also discover a rather poor record for Fund-supported programmes in Africa. For a general review of LICs within the international monetary system, see Bird (1983).

26 Goreux (1989) presents evidence to show that the Fund has had outstanding credit in some LICs for between 10 and 29 years.

Arrears to the Fund, while confined to a limited number of countries, has been more of a problem for LICs than others.[27] This has symptomised the fragility of their balance of payments situations. This fragility, their scant access to private sources of financing and their often wafer-thin cushion of international reserves have undoubtedly pushed LICs more heavily towards the Fund than other groups. When, within the Fund, there has been a move towards stricter policy conditions, this has thus had a particularly marked effect on LICs, who will, as a result, be more affected by any inappropriateness in the nature of Fund conditionality.

It would, however, be unjust to argue that the Fund has been completely unresponsive to the problems of the low-income countries. Although not exempt from criticism, the Extended Fund Facility (EFF), the Trust Fund, the Supplementary Financing Facility, the Structural Adjustment Facility (SAF) and the Enhanced SAF (ESAF), as well as the use of subsidies for LICs, may all be quoted as evidence of a response. Moreover it was in 1986-1987 in the case of Bolivia, a low-income country, that the Fund adopted an approach to sovereign debt which has been held up by some observers as a model of the approach which should be adopted more generally. In this case the Fund did not insist on a new devaluation two months after the most recent one and did not treat arrears to the banks as a breach of the IMF's own performance criteria. With the Fund apparently unwilling to act as their *de facto* debt collector, the banks were forced, so it is claimed, to offer debt relief in the form of a debt buy-back scheme. This, along with the arrears themselves, effectively financed and induced the necessary adjustment in the Bolivian economy. In this particular case, it is claimed not only that the Fund-supported programme was successful, but also that the role of the Fund within the economy was politically accepted because it could not be depicted as an agent of the banks, but rather a net supplier of resources.[28]

By the end of the 1980s, the outlook for LICs showed few, if any, signs of improving An outlook hardly improved in the early 1990s by the Gulf War and recession amongst industrial countries. Their balance of payments problems remained entrenched; their creditworthiness in the eyes of the commercial sector remained very low, if not non-existent, as shown by the price of their debt in the secondary market; their need for financial inflows in order to maintain any form of development remained positive; but they had negative net transfers with the Fund. With increasing claims on Fund resources coming from the emerging economies of Eastern Europe, which are themselves unlikely to enjoy significant access to commercial bank lending, continuing demands coming from the middle-income developing countries, and a persistent US current account deficit, low-income countries are in danger of being crowded out in the competition for balance of payments and development financing.

---

27 Goreux (1989) states that at the end of the 1980s, four countries accounted for 80% of total arrears due to the Fund. Helleiner (1983) shows that in earlier periods, the problem of arrears was heavily concentrated in low-income countries. Thus of 32 countries in arrears on their external payments in 1981, 20 were African.

28 The argument has perhaps been most strongly stated by Sachs (1989a).

How should the Fund respond to this scenario? To the extent that LICs need more foreign aid, should the Fund explore ways in which lending to them may be made longer term, more supply-related and more concessionary? Should it explore ways of extending and liberalising those facilities of particular relevance to LICs, such as the EFF, the CCFF, and the ESAF; should it expand the use of subsidies; and should it try to resuscitate the idea of an SDR and aid link? Should it introduce a soft lending window along similar lines to the World Bank's soft loan affiliate, the International Development Association (IDA)? Or, should it instead endeavour to disentangle itself from lending to LICs by essentially passing the responsibility over to the World Bank or the aid agencies?

13. The Fund's Relations with Other Institutions

While there is some overlap between the Fund and the various groupings of industrial countries such as the OECD, G-7 and G-3 in the pursuit of certain systemic functions including the management of exchange rates and the international co-ordination of macroeconomic policy, it has been the Fund's involvement in developing countries during the 1980s which has brought the question of the institutional division of labour into sharper focus.

The first interface is between the Fund and the commercial banks. Earlier notions had been of the Fund fulfilling a catalytic role and, through its conditionality and its so-called 'seal of approval', encouraging the banks to lend. Although this has sometimes assumed the proportions of a stylised fact, the empirical evidence of its existence is rather mixed.[29] Indeed, as already noted, by the beginning of the 1980s, the Fund and the banks were essentially involved in different groups of developing countries; a *de facto* division of labour seemed to have emerged with the banks financing the middle-income countries and the Fund financing the low-income countries. Beyond 1982 this pattern of lending changed dramatically with the Fund being pulled into lending to the highly-indebted countries as the banks sought to withdraw. In the early years of the debt crisis, the Fund essentially acted to impede the withdrawal of the banks through concerted lending. The Fund made its support conditional upon the banks continuing to provide finance. To the extent that there was a multilateral debt strategy, it relied on refinancing and new money. The perception within the banks themselves at this time was that they were being asked to do too much relative to the official sector, and they were critical of the Fund. As the 1980s proceeded, concerted lending faltered and the Fund became exposed to criticisms of a different nature. The accusation was now that the Fund was bailing out the banks and systemically discouraging the provision of the debt relief which was needed to resolve the debt problem. Certainly by the end of the 1980s, the banks had become less vulnerable to problems arising from their exposure in developing countries. The international banking collapse threatened by the debt crisis had been averted. Moreover, the emphasis of international policy switched from the new lending associated with the Baker Plan to the debt reduction associated with the Brady Plan. On

---

29 For a discussion of this see Bird (1983), which also contains a broad review of the IMF and the developing countries.

a small and piece-meal scale, the Fund was now seen as fulfilling the sorts of functions that it had been suggested by some observers should be conducted on a large scale by a new International Debt Facility (IDF).[30]

If the division of labour between the Fund and the banks became fuzzy in terms of country involvement during the 1980s, fuzziness also existed in terms of function. At first sight there seemed to be an argument for exploiting areas of comparative advantage. This would have had the banks mobilising finance and the Fund collecting and processing information and making an input into the design of stabilisation programmes. In fact, the banks themselves began to collect and collate data more systematically through their own Institute of International Finance in Washington, and the Fund, at least at the beginning of the 1980s, took on a financing role.

With the banks endeavouring to minimise their involvement in developing countries, the interface between the Fund and the banks may be of relatively less significance in the 1990s except in the context of debt reduction.

Of growing importance, on the other hand, will be relations between the Fund and the World Bank. The division of labour between the two Bretton Woods institutions which had begun to alter in the 1970s underwent still more fundamental change in the 1980s. Prior to the breakdown of the Bretton Woods system, the division of labour had been relatively straightforward. The Fund's orientation was towards: the short run; the balance of payments; the demand side; the monetary sector; and programme support. The Bank's was towards: the long run; economic development; the supply side; the real sector; and project support. The differences between the two institutions were nicely encapsulated in Keynes' observation that the Board of the Fund should comprise 'cautious bankers' whereas that of the Bank should comprise 'imaginative expansionists'.[31] Although the line between the balance of payments and development has never been an easy one to draw, for as long as the Fund was not heavily involved in developing countries, this did not constitute a significant problem. The Fund largely successfully sought to retain its image as a monetary institution.

In 1966, an internal memorandum clarified the division of labour by assigning 'primary responsibilities' to each agency.[32] The Fund had jurisdiction 'for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria and for evaluating and assisting members to work out stabilisation programmes as a sound basis for economic advice.' The Bank's primary responsibility, in contrast, was 'for the

---

30 For a review of such proposals see Corden (1989). It needs to be noted that the Brady Plan might be expected to have a negative effect on resource transfers, since a given amount of finance directed towards debt reduction will have a smaller impact on current flows that would a similar amount of new lending.

31 Reported in Moggridge (1980).

32 Reported in Mason and Asher (1973).

composition and appropriateness of development programmes and project evaluation, including development priorities'.

Less than a decade later, it had begun to be accepted, even within the Fund, that payments deficits could be of a structural nature which required longer-term financial support to correct. The EFF was introduced to fill what was perceived as a gap in the range of the Fund's lending facilities. Although critics have argued that EFF programmes in practice were little different from normal stand-by programmes, and although the Fund's staff were rather unenthusiastic about the facility, its introduction clouded the distinction between the Fund and the Bank. The distinction was further blurred throughout the 1980s first by the Bank's commencement of a programme of structural adjustment lending through structural adjustment loans (SALs) and sectoral adjustment loans (SECALs) which incorporated conditionality linked to the structural causation of balance of payments deficits, and second by the introduction by the Fund of the SAF and then the ESAF. In both terminology as well as in areas of involvement, structural adjustment had served to create an important area of overlap between the Fund and the Bank.

The agencies themselves attempted to deal with these overlapping responsibilities by seeking to achieve greater co-operation and collaboration and, through this, consistency. The co-operation has been both formal, as incorporated in the mutual design of a policy framework paper (PFP) as part of the SAF, and informal, relying, as some observers have suggested, on the 'personal chemistry' of the relevant staff members. Clearly the overlap can bring with it both advantages and disadvantages. The former exist in terms of better informed analysis and judgement, the latter in terms of inefficiency caused by increasing labour input per unit of output, by delays and institutional conflict.

Given that there is little or no indication that the structural problems of developing countries will be resolved quickly, the overlapping responsibilities between the Fund and the Bank seem likely to endure through the 1990s and beyond, even though the Bank has signalled a partial retreat from structural adjustment lending. Indeed, the overlap will take on a wider geographical connotation with continuing economic reform in Eastern Europe. The question therefore is what is the organisational structure best suited to capture the advantages and avoid the disadvantages. Should the Fund and the Bank be merged? Should their areas of responsibility be reasserted or redefined, as seemed to happen in early 1989? Should a new agency be established? Should methods of collaboration be reviewed and reformed? What should be the position on cross-conditionality? Although sometimes these are unattractive questions to economists who often prefer to spend their time designing and testing economic models, they remain very important questions from the point of view of those people whose lives are touched by the activities of the Fund and the Bank. Fortunately, events during the 1980s have rekindled interest in this area of international political economy.

One possibility which draws on the distinction between the problems of HICs and LICs made earlier in this chapter, would be to identify either the Fund or the Bank as the 'lead' institution in particular countries. The presumption would be that the Fund would lead in cases where the mismanagement of domestic demand appeared to be the major cause of payments difficulties with the Bank playing a supporting role. In cases where supply deficiencies seemed to be the root cause of the problem, the Bank would take the lead with the Fund taking on the role of ensuring that a programme of structural adjustment was not undermined by macroeconomic fiscal and monetary mismanagement. This would imply that the Bank would generally be the lead institution in low-income countries.

Clearly to the extent that institutional reform improved the effectiveness and success of adjustment programmes, this would enhance their catalytic effect on both private capital, if not in the form of bank loans then perhaps in the form of foreign direct investment, and aid flows, where conditionality has been of increasing significance.

14. Concluding Remarks

The IMF is at a watershed in its history. From being the centre-pin of the Bretton Woods system, the Fund was left with an ill-defined systemic role after the collapse of that system. International monetary arrangements began to rely much more heavily on private markets both for foreign exchange and for international capital; the Fund became marginalised. As its systemic role was down-graded and as the industrial countries, and some of the more creditworthy developing countries, turned elsewhere for finance, the Fund was left to deal with the low-income countries that had nowhere else to go. In the 1980s, however, a different sub-group of LDCs were now forced to turn to the Fund which, as a result, became involved in the debt crisis. But its handling of developing country debt was severely criticised, albeit for sharply contrasting reasons. On top of this, the Fund's involvement in the low-income countries has not been a happy one.

Where does the Fund go from here? Does the move back towards greater exchange rate management and international macroeconomic policy co-ordination in recent years indicate the reinstatement of a systemic role? Should this role be extended to include the use of global policies such as SDR creation, and the counter-cyclical use of conditionality?

Following on from the problems encountered by the Uruguay round of trade negotiations one scenario would, for instance, have the Fund playing a central role in avoiding the protectionist tensions that are seen as being related to the emergence of a tri-polar world economy based on the US, Japanese, and European economies.[33] The avoidance of economic conflict between these centres of economic power, as the hegemony of the US continues to wane, and as economic competition replaces military competition, has been seen by some observers as the main challenge facing the IMF. Such a scenario sees the Big Three economic powers acting as a 'steering committee for the world economy', and pledging themselves to the maintenance of a stable international economic order. An aspect of this would be the construction of a new regime to replace the Bretton Woods system, based on target zones and co-ordinated macroeconomic policies. According to this view, 'the IMF would play the critical "honest broker" role in providing forecasts,

---

[33] Bergsten (1990) provides a succinct statement of this view.

analyses and policy recommendations to guide implementation of the system' (Bergsten, 1990).

Another related view sees establishing balance of payments viability to the US as the most pressing current issue in international finance.[34] According to this perception, the IMF should seek to re-establish its role in industrial countries where its conditionality could be of great significance in restoring confidence. The Fund as a multilateral source of financing is seen as having considerable advantages over bilateral private financing.

An expanded role for the Fund in financing the deficits of industrial countries as well as those of Eastern European countries may, however, have implications for developing countries. Unless the finance comes from sources where they are not competing, or from an expansion in the Fund's lending capacity, developing countries could be crowded out of the Fund. The hard facts of the case, however, are that industrial countries are always going to be less likely to be forced into the Fund than are developing countries, since they will always have superior access to alternative means of financing.

But what is the appropriate response to the problems that the Fund has encountered in its dealings with developing countries during the 1980s? Should the pattern of reduced net lending, as seen during the 1980s, be encouraged? Indeed should the Fund be closed down as a lending institution altogether? Alternatively should attempts be made to overcome these problems by reforming the lending policies of the Fund? If the Fund is closed down, what chance is there for meeting the financing needs which developing countries are likely to encounter during the 1990s? If the market fails is there a role for the Fund to play? Even if a strong case could be made in favour of a role for the Fund during the 1990s, a central issue remains whether the Fund's major shareholders will support such a role.

The banks have no desire to renew lending. Foreign direct investment, although a channel which may be broadened, is unlikely to assume the necessary quantitative proportions and is, in any case, unsuited to the needs of balance of payments financing. Moreover, it is unlikely that foreign aid will increase sufficiently to fill the financing gap that faces developing countries. Even if enhanced flows from these sources were not unlikely, there are reasons to believe that, beyond certain levels, they are undesirable. Unconditional aid may be ineffective.[35] Moreover, a lesson of the 1970s and 1980s surely is that the commercial banks provide an inappropriate means of financing payments deficits in developing countries. If the market fails, is there not a role for an international institution such as the Fund to play? If so will the Fund's major shareholders support such a role? Lack of support and of the necessary flexibility to respond would, however, also tend to rule out the option of dismantling the Fund and starting over again.

---

[34] See Finch (1989) for a full development of this argument.

[35] Reviews of foreign aid have failed to demonstrate the superiority of unconditional assistance. See, for example, Cassen *et al.* (1987).

The unpalatable alternative is that developing countries will reduce their demand for international finance by contractionary and protectionist policies. A lesson of the 1980s, however, is that pursuing this alternative can lead not only to reduced living standards in those countries in which the adjustment occurs, but also to political and social unrest and instability. It is because of this that the industrial countries may perceive themselves as having a vested interest in reforming the Fund's role in developing countries.

A firmer commitment to the Fund would of course bring with it the question of the adequacy of its resources, and the ways in which these are provided. Should the Fund continue to rely on subscriptions; should it borrow more heavily from some of its own members as a means of recycling international finance; or should it borrow from international capital markets? Could it not more actively explore the greater use of the SDR?

Clearly the role of the IMF has changed radically over the last twenty years, with many of the functions for which it was originally designed having disappeared. Without structural reform its marginalisation may soon become terminal. It is therefore an appropriate time to undertake a full and measured assessment of the Fund's future.

References

Bergsten, C. Fred (1990); 'From Cold War to Trade War', *International Economic Insights*, July/August.

Bienen, H.S. and M. Gersovitz (1986); 'Economic Stabilisation, Conditionality and Political Stability', *International Organisation*, Autumn.

Bird, Graham (1983); 'Low Income Countries and International Financial Reform', *Journal of Developing Areas*, October, reprinted in G. Bird, *Managing Global Money, op. cit.*

Bird, Graham (1985); *World Finance and Adjustment: An Agenda for Reform.* London: Macmillan.

Bird, Graham (1987); *International Financial Policy and Economic Development.* London: Macmillan.

Bird, Graham (1988); 'The Changing International Economic Order and the Interests of Developing Countries', Chapter 12 in Graham Bird, *Managing Global Money.* London: Macmillan.

Bird, Graham (1988); 'Developing Country Borrowing from Private Markets: Key Aspects and Prospects for the Future', Chapter 10 in Graham Bird, *Managing Global Money.* London: Macmillan.

Bird, Graham (1989); 'World Debt, Financing, Structural Adjustment and the Official Sector', in H. Singer and S. Soumitra (eds), *Economic Development and World Debt.* London: Macmillan.

Bird, Graham (1990); 'The International Financial Regime and the Developing World', in Graham Bird (ed.) *The International Financial Regime.* Surrey University Press with Academic Press.

Cassen, R., and Associates (1987); *Does Aid Work?* Oxford University Press.

Chrystal, K. Alec (1990); 'International Reserves and International Liquidity: A Solution in Search of a Problem', in Graham Bird (ed.) *The International Financial Regime.* Surrey University Press with Academic Press.

Corden, Max (1988); 'An International Debt Facility', *IMF Staff Papers*: June.

Cornia, G.A., R. Jolly and F. Stewart (eds); *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth.* Oxford: Oxford University Press.

Demery, Lionel and Tony Addison (1987); *The Alleviation of Poverty Under Structural Adjustment*. Washington: World Bank.

Edwards, Sebastian (1988); *Exchange Rate Misalignment in Developing Countries*. Baltimore: Johns Hopkins University Press.

Edwards, Sebastian (1989); 'The International Monetary Fund and the Developing Countries: A Critical Evaluation', *Carnegie Rochester Conference Series on Public Policy*, 31.

Feinberg, Richard E. (1988); 'The Changing Relationship Between the World Bank and the International Monetary Fund', *International Organization*, Summer.

Finch, David C. (1988); 'Let the IMF be the IMF', *International Economy*, Jan./Feb.

Finch, David C. (1989); 'The IMF: The Record and the Prospect', *Essays in International Finance*, No. 175, September.

Goreaux, Louis M. (1989); 'The Fund and Low Income Countries', in Gwin and Feinberg (eds) *The International Monetary Fund in a Multipolar World, op. cit.*

Gwin, Catherine and Richard Feinberg (editors) (1989); *The International Monetary Fund in a Multipolar World: Pulling Together*, US-Third World Policy Perspectives, No. 13. Washington: Overseas Development Council.

Haggard, Stephan (1985); 'The Politics of Adjustment: Lessons from the IMF's Extended Fund Facility', *International Organisation*, 39(s).

Haggard, Stephan and Robert Kaufman (1989); 'The Politics of Stabilization and Structural Adjustment', in J. Sachs (ed.), *Developing Country Debt and Economic Performance, op. cit.*

Helleiner, G.K. (1983a); 'Lender of Early Resort: The IMF and the Poorest', *American Economic Review*, May.

Helleiner, G.K. (1983b); 'The IMF and Africa in the 1980s', *Essays in International Finance*, Princeton University, No. 152, July.

Helleiner, G.K. (1986); 'Balance of Payments Experience and Growth Prospects of Developing Countries: A Synthesis', *World Development*, August.

Helleiner, G.K. (1987); 'Stabilization, Adjustment and the Poor', *World Development*, December.

IMF (1986); 'Fund-Supported Programmes, Fiscal Policy and Income Distribution', *IMF Occasional Paper*, No. 46.

Kaufman, Robert R. (1988); *The Politics of Debt in Argentina, Brazil and Mexico,* Institute of International Studies, University of California, Berkeley.

Khan, Mohsin, Peter Montiel and Nadeem Ul Haque (1986); 'Adjustment with Growth: Relating the Analytical Approaches of the World Bank and the IMF', *World Bank Discussion Paper.*

Khan, Mohsin S. and M.D. Knight (1988); 'Import Compression and Export Performance in Developing Countries', *Review of Economics and Statistics,* May.

Khan, Mohsin S. (1991); 'Evaluating the Effects of IMF-Supported Adjustment Programmes: An Empirical Survey', in K. Phylaktis and M. Pradham (eds), *International Finance and Less Developed Countries.* Macmillan: London.

Killick, Tony *et al.* (1984); *The Quest for Economic Stabilisation: The IMF and the Third World.* London: Overseas Development Institute.

Killick, Tony (1989); *A Reaction Too Far: Economic Theory and the Role of the State in Developing Countries.* London: Overseas Development Institute.

Killick, Tony (1989); 'Issues Arising from the Spread of Obligatory Adjustment', in Graham Bird (ed.), *Third World Debt: The Search for a Solution.* Edward Elgar.

Krugman, Paul (1988); 'Financing versus Forgiving a Debt Overhang', *Journal of Development Economics,* 29.

Love, James (1990); 'Export Earnings Instability: The Decline Reversed?', *Journal of Development Studies,* June.

Loxley, John (1984); *The IMF and the Poorest Countries.* Ottawa: North-South Institute.

Mason, Edward S., and Robert E. Asher (1973); *The World Bank Since Bretton Woods.* Washington: Brookings Institution.

Maynard, Geoffrey and Willy van Ryckeghem (1976); *A World of Inflation.* London: Batsford.

Moggridge, Donald (ed.) (1980); *The Collected Writings of John Maynard Keynes, Vol. XXVI, Activities 1941-46.* London: Macmillan.

Nelson, Joan M. (1984); 'The Politics of Stabilisation', in R.E. Feinberg and V. Kallab (eds), *Adjustment Crisis in the Third World.* Washington: Overseas Development Council.

Nelson, Joan M. (with others) (1989); *Fragile Coalitions: The Politics of Economic Adjustment*, US-Third World Policy Perspectives, No. 12. Washington: Overseas Development Council.

Nowzad, Bahram (1989); 'The Debt Problem and the IMF's Perspective', in Graham Bird (ed.), *Third World Debt: The Search for a Solution.* Edward Elgar.

Otani, Ichiro and D. Villanueva (1990); 'Determining Long Term Growth Performance in Developing Countries', *World Development.*

Sachs, Jeffrey D. (1989a); 'Strengthening IMF Programmes in Highly Indebted Countries', in Gwin and Feinberg (eds) *The International Monetary Fund in a Multipolar World, op. cit.*

Sachs, Jeffrey D. (1989b); 'Conditionality, Debt Relief, and the Developing Country Debt Crisis', in Jeffrey D. Sachs (ed.) *Developing Country Debt and Economic Performance, Vol. 1. International Financial System,* University Chicago Press.

Siddel, Scott R. (1988); *The IMF and Third World Instability: Is There a Connection?* London: Macmillan.

Stallings, Barbara and Robert Kaufman (1989); *Debt and Democracy in Latin America.* Boulder, Colorado: Westview Press.

Vines, David (1990); 'Growth Oriented Adjustment Programmes; A Reconsideration', Centre for Economic Policy Research, *Discussion Paper,* No. 406, March.

Zulu, Justin B. and Saleh M. Nsouli (1985); 'Adjustment Programmes in Africa: The Recent Experience', *IMF Occasional Paper* No. 34, April.

Overseas Development Institute
Regent's College
Inner Circle
Regent's Park
London NW1 4NS
England
Telephone: 071-487 7413
Fax: 071-487 7590
Telex: 94082191 ODIUK