Financing Development: A Critical Examination of the IMF in Sub-Saharan Africa

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DECLARATION

I declare that the dissertation entitled **"FINANCING DEVELOPMENT: A CRITICAL EXAMINATION OF THE IMF IN SUB-SAHARAN AFRICA"** submitted by me for the award of the degree of Master of Philosophy of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other University.

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CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

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Saurabh Kumar

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List of Abbreviations

BOP	Balance of Payment
BSFF	Buffer Stock Financing Facility
CCFF	Compensatory and Contingency Financing Facility
EFF	Extended Fund Facility
FDI	Foreign Direct Investment
GAB	General Arrangement to Borrow
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
LDC	Less Developed Country
MDRI	Multilateral Debt Relief Initiative
NAB	New Arrangement to Borrow
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
PRGF	Poverty Reduction Growth Facility
SAF	Structural Adjustment Facility
SBA	Stand-By Arrangement
SDR	Special Drawing Rights

Preface

The dissertation is primarily driven by two major concerns - the international development process and the international financial system. The prevailing economic environment has given rise to frequent and severe problems in developing countries, leaving many countries unsuccessful in their efforts to generate economic growth and reduce poverty. In addressing these concerns, the dissertation seeks to achieve three objectives: First, it seeks to understand the way multilateral agencies such as the International Monetary Fund (hereafter referred to as the IMF/ Fund) view development. Second, take up the specific case study of Sub-Saharan Africa (SSA) as a region and third interrelate the activities of IMF and the factors that influence its effectiveness as well as to describe the remedies that have been proposed to mitigate the challenges of development in Sub-Saharan Africa.

The IMF is the principle multilateral institution responsible for global economic prosperity and financial stability. The IMF has been an important initiator and financier of development programmes in the South. Specific policy interventions include facilities such as Stand-By Arrangements (to help countries overcome short term balance of payments problems arising due to an increase in the cost of cereal imports), Compensatory Financing (to assist countries experiencing either a sudden shortfall in export earnings), and concessional lending under Poverty Reduction and Growth Facility.

Mainstream thinking of development including the policies and practices of the IMF have undergone considerable change over the last sixty years. Following the aftermath of the Second World War, development was equated with investments made in infrastructure and industrial projects. But as decades passed, more emphasis was accordingly placed on programmes directly affecting the basic needs of people which would not only be of immediate benefit to the poor but which would make growth possible.

By focusing on the economic and social problems associated commonly with development, the study seeks to examine the role and contribution made by the IMF in financing activities in one of the worst affected and deprived regions of the world - Sub-Saharan Africa. The region of Sub-Saharan Africa consists of a group of 44 countries which includes states such as Eritrea, Guinea, Liberia, Sierra Leone, and Mali. This region houses 10 percent of world's population but accounts for only 5 percent of world's Gross National Income (GNI). The region also ranks low in terms of human development – life expectancy at birth is lowest in the world while prevalence of HIV adults is highest.

Development according to James Ferguson (2005: 44) has different connotations - idea of what it is as against and whom is it for? In Africa, the debate swings between development on the one hand, and imposed conditionalities, structural adjustment and the negative effects of uncontrolled privatization on the other. The political programme that underlies such politics is only too obviously under-developed; most often it rests on either a nostalgically conceived benevolent, effective nation-state that is wishfully imagined as having a natural vocation for defending the poor against global capitalism, or a romantic conception of the local, such that the global poor might escape their economic poverty and political marginalization by rejecting globalization and embracing the imagined virtues of local communities. The question of development is fundamentally about politics, and the question that a multilateral organization such as the IMF that is concerned with the development must ask is really the most basic of political questions: what constitutes development and how can it organize to get it?.

The IMF has been the subject of academic research given its location within the dominant mainstream paradigm of development. An organizational perspective adds another dimension to the work of the institution. International organization has been defined by Inis Claude Jr. as a process with respective international institutions as representative examples of the process (Claude 1987: 4). There are three main roles that have been attributed to all international organizations: instrument, arena and actor (Archer 2001: 135). From an organizational perspective the IMF can therefore be seen as a representative example of the phase in constant evolution, related to international monetary and financial cooperation, and fulfilling these three roles - an instrument of some economic powerful countries to gain their interests, an arena for various actors indulging in rule making and an actor in international politics and economy.

Tyrone Ferguson, another organizational theorist (1988: 15) sees international organizations as entities that are essentially not internally self-sufficient; they require resources from the environment. Thus the approach should be concentrate on three orientations: (i) actors within an organization; (ii) structures and functions; and (iii) the relationship of an organization to its environment. Thus the IMF is an economic organization dealing with certain specialized functions in monetary relations. The trends in the international economic system have some impact on the IMF's operations, those trends and occurrences affect its capacity to pursue its mandate.

A substantial amount of research has begun to document empirically the importance of IMF and specific factors in driving its functions. However, less attention has paid on the organizational and developmental aspect of IMF. Gilbrt and Vines (2004), Isard (2005), Pelaez and Pelaez (2005), Abdelal (2006) and Uzan (2005) have focused on the various dimensions of IMF but the centre of their attention were economic problems such as financial crises, exchange rate instability and inflation.

The research is guided by the understanding that there are many factors (historical, political, economic, and social) that influence development patterns in a region. The process of development is dependent on a number of intervening variables. Does the IMF in addressing development take up the structural roots that underlie underdevelopment? Being a financial and economic organization, is there a politics attached to its lending? These are some of the questions that the research seeks to examine.

The dissertation is divided into four segments. The first chapter traces the historical evolution of IMF and focuses on structure, objectives and functions of the organization. The second chapter takes a look at the history and geography of Sub-Saharan Africa region taking up in specific the economic and social problems faced by countries impeding development. The third chapter focuses on two areas: first it traces the IMF strategies and recommended policy interventions for officially classified low income countries of Sub-Saharan Africa; second, it explores in detail specific strategies in the context of Sub Saharan Africa as proposed by the IMF. The fourth chapter forms the concluding segment and provides the main findings of the study.

While mainly relying on the official documents of the IMF and World Bank a conscious attempt to explore other sources such as official documents of the African Union, various organs of the United Nations and other specialized agencies working towards development in Sub-Saharan Africa.

Chapter I

The International Monetary Fund: Structure and Functions

The idea of an International Monetary Fund (IMF/Fund) was first mooted by the Allies during the concluding phase of the Second World War. The basic thrust for International Monetary Fund came from the United States of America (U.S.A.) and the United Kingdom (U.K.). The collective experience of the Great Depression that affected American and European interests in a large way provided the immediate impetus for the creation of IMF. The collapse of commodity prices and deflationary pressures leading to severe restrictions being placed by countries resulted in a sharp fall in multilateral trade in the late 1930s (Vries 1986: 6).

The chapter seeks to provide an introduction to the organization and working of the International Monetary Fund. The IMF must be judged in terms of overall international political and economic environment and its own organizational characteristics. It is appropriate that there should be an analysis of its operations keeping in view the perceptions of the borrowers- whom it is intended to be benefit. Prior to the creation of IMF, there had been no permanent cooperative organizations to oversee the international economic system. The multilateral institution that emerged by the name of the International Monetary Fund had two distinct elements. First, a framework was laid out to govern the rules of monetary exchange between countries and second, an institutional structure was put in place to govern such relations.

Historical Background

With the outbreak of World War II the financial and commercial restrictions on trade intensified and trade between nations was further reduced. Even while the war was still in progress, it was realized that strenuous efforts to reduce trade and exchange barriers would be needed to ensure the proper functioning of the international economy in the postwar years (Cooper 1975: 85). Preliminary discussions to reduce trade barriers and exchange restrictions followed the signing of the Mutual Aid Agreement between the United States and Britain in 1941, which although predominantly concerned with the lend-lease arrangements, also committed the two countries to co-operate on international economic affairs after the war. Subsequently, numerous discussions were held in Washington and London with a view to producing a set of rules or a code of conduct in international monetary affairs to be implemented after the war (Kenwood and Lougheed 1971: 8).

Several Plans were discussed of which two most important ones were: the plans for an International Clearing Union proposed by the British economist John Maynard Keynes and the plan for an International Stabilization Fund by Harry Dexter White, senior official at the American Treasury. Both plans called for an international machinery to stabilize currencies - a radical innovation, and a prohibition against altering exchange rates beyond narrow limits without international approval. Both called for the introduction of a new international currency unit defined in terms of gold. The American plan called for participating nations to contribute to a relatively limited stabilization fund of about $5 billion, on which they would be permitted to draw in order to bridge balance-of-payments deficits. The British plan recommended the establishment of a system of international clearing accounts, under which each member country could borrow up to its own quota limit, while its creditors would be credited with corresponding amounts, expressed in international currency units.

Keynes's 1941 proposal for an International Clearing Union recommended the introduction of an international currency called "Bancor". Bancor was to be defined in terms of gold. Exchange rates were to be fixed in terms of Bancor (Vries 1986: 7). Keynes also suggested that there should be a special decision making role for the United Kingdom and the United States. He was in the favor of temporary or permanent control in the decision making process by the British and the Americans. In April 1943 Britain proposed a fresh version of the draft, which suggested that the administration of the proposed organization must be international without paramount control of veto and the rights of the small and low income countries must be secured (Mikesell 1994: 25). The proposal envisioned the sterling area at the centre of the monetary system (Dormael 1978: 5). The Keynes draft was issued as part of a pamphlet, which viewed the problem of stabilization in its various aspects, and, as a result elicited immediate interest. Keynes wanted a modest organization to provide a platform to economic and financial experts to discuss the challenges of the world economy.

Harry Dexter White on the other hand had drafted two proposals: one titled 'Proposal for a United Nations Stabilization Fund' and the other a 'Bank for Reconstruction and Development of the United and Associated Nations'. The White plan covered a number of purposes for the Fund, including stabilizing countries exchange rates, encouraging the flow of productive capital among countries, facilitating the settlement and servicing of international debts and reducing exchange restrictions. According to the plan membership was to be open to all countries provided they agreed to fulfill certain economic and financial obligations, namely: removal of export subsidies, not to permit any default on foreign obligations of the government, reduction in trade barriers, not to adopt any price policy which could affect the balance of payment of other members, not to enter any other bilateral clearing agreement, restrictions on deposits and investments, restrictions on exchange rates, reduction in control over foreign exchange transactions. There was no provision in the White plan for withdrawal of membership. No country could be excluded because of its internal economic structure (Vries 1986: 7).

It was the White plan that formed the subject matter for negotiations at the Bretton Woods Conference in 1944, and also of the various intergovernmental interactions in this regard between November 1943 and July 1944. The plan was debated publicly among bankers, economists and various official governmental meetings headed by Keynes and White (Vries 1986: 8).

On March 4, 1943 the United States Secretary of Treasury Henry Morgenthau, Jr., sent an invitation to the 37 countries to send their experts to discuss the White plan. Representatives from Australia, Belgium, Brazil, Canada, Chile, Cuba, Czechoslovakia, the French National Committee of Liberation, India, Mexico, the Netherlands and the

Philippines came to join the USA, the UK, China and the Soviet Union for discussions on the subject in Atlantic City in June 1944. The meeting set the agenda for the Bretton Woods Conference, New Hampshire, U.S.A. attended by the 730 delegates from 44 United and Associated Nations, between July 1 to 22, 1944 (Eckes 1975: 121). The conference was officially known as United Nations Monetary and Financial Conference (UNMFC), but became more popularly known as Bretton Woods Conference. The conference was the collective initiative of President of United States of America Franklin D. Roosevelt and the British Prime Minister Churchill (Horsefield et al 1969: 3). The United Kingdom, the United States, and their allies were convinced that international economic and financial cooperation through intergovernmental institutions was required to prevent a more serious recurrence of the economic and monetary chaos of the 1930s. There were only four African countries in the conference: Liberia headed by William E. Dennis, South Africa headed by S. F. N. Gie, Egypt represented by Mahmoud Saleh El Falaky and Ethiopia represented by Blatta Ephrem T. Medhen. (UNMFC 1945: 242-257).

On 1 July 1944, Morgenthau was elected as the permanent chairman of the Conference. Three commissions were formed to deliberate upon the formation of the International Monetary Fund (IMF/Fund), the Bank for Reconstruction and Development (IBRD/Bank), and consider other means of international financial cooperation. White chaired the first Commission, Keynes the second, and the Chairman of the Mexican Delegation Eduardo Suarez headed the third commission (Vries 1986: 8). The Conference was designed in such a way that the Articles of Agreement of the Fund were to be completed first before turning to the Development Bank or Other Means of International Financial Cooperation. White observed Keynes as the only careful personality who could upset his plans and White himself handled the proceedings of the commission on IMF to ensure that things moved according to his own ideas (Peet et al 2003: 47).

Commission I (International Monetary Fund), of which Harry Dexter White was the Chairman, was subdivided into four sub-committees: Committee I - Purposes, Policies and Quotas of the Fund; Committee 2 - Operations of the Fund; Committee 3 -

Organization and Management; Committee 4 - Form and Status of the Fund. It is interesting to note that the chairs and reporters of the committees were non-Americans who were not aware with the English language. All the secretaries and assistants to the committees were Americans, who themselves selected and proposed subjects to be discussed they counted the votes, and more importantly wrote the minutes of the meetings and drafted the final agreement. White had trained them at the Atlantic City pre-Conference meeting, and together they formed a homogeneous and organized team that could understand the main issues of U.S.A. (Dormael 1978: 173). White also had the support of the Latin American delegates in the other committees and in return he offered them two seats in the IMF and IBRD (Eckes 1975:154).

The founders designed for the two organizations to work collectively with each other. For this purpose efforts were made to keep the Articles of the Fund and the Bank same. The Fund articles were used as a model for those of the Bank, especially the rules with regard to the organizational structure. In many respects the Bank has been called the mirror image of the Fund (Kirshner et al 1996: 15). During the conference Keynes insisted that the headquarters of the Fund should be located in London, which has been the traditional centre for international finance, on the other hand White assumed that the headquarters should be in the territory of the U.S.A. The decision on headquarters was left for the Savannah Conference held later in 1946. At Savannah, it was decided that the Fund be located in Washington, D.C. It is also noteworthy that Keynes wanted New York instead of Washington D.C. as the headquarters to avoid political influence of U.S.A. (Peet et al 2003: 52).

After thorough discussions of the Articles of Agreement and on the basis of the White Plan, the Articles came into effect from 27 December 1945 (Eckes 1975: 149). The Inaugural Meeting of the Board of Governors of the two institutions was convened in Savannah by the USA on 8 March 1946 to deal with the organizational aspects of the two organizations. Keynes named the Fund and the Bank as "Bretton-Woods twins organizations" (Polak in Kapur et al 1997: 473). Technically while the two institutions (IMF/Bank) were classified as special agencies of the United Nations, in practice these were kept out of the U.N. influence. The IMF's official relationship with the United Nations is defined by a 1947 agreement which recognizes it as an independent specialized agency of the UN. This is mainly because the IMF is not subject to the decision-making control of the United Nations and is thus different from other specialized agencies (Peet et al 2003: 50).

Objectives and Functions

The founders of IMF had six purposes when they created the organization. These are stated in the Article 1 of Articles of Agreement:

> (i) To promote international monetary cooperation 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 Fund's resources available to them under adequate safeguards, thus providing them with 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 balances of payments of members (IMF 2007).

The above mentioned purposes have largely remained unaltered except two amendments in 1969 and 1978. The objectives of the Fund implied that fixed exchange rates, liberty from exchange restrictions, and multilateral trade and payments were the essential path for international financial cooperation and for promoting world trade and investment (Vries 1986: 14). It was felt that these objectives could not all be achieved on time, Article XIV of the agreement provided for a postwar transitional period during which the member countries might breach the general bar on exchange controls over current account transactions (IMF 2007).

Conceived as the central of postwar monetary relations, the functions of the IMF can be classified in to three core categories: surveillance involves the monitoring of economic and financial development, provision of policy advice, aimed especially at crisis preventing and lending and a forum for consultation and negotiations. As a regulatory organization, the Fund was to specify the rules and norms for the monetary conduct of its member-countries. Members had to follow fixed exchange rate system and specific currency practices as part of their code of conduct. Additionally, the Fund was to lay down the convertibility standards outlined in Article VIII of its Agreement. The Fund was conceived to possess supervisory function in order to regulate national actions threatening international equilibrium. The Fund was created essentially to provide the money to the balance of payments deficits of the member-countries. Its financial duty was, thus, meant to supplement the short-term financing needs of the members to settle their difficult external payments situations. Lastly, the Fund was meant to act as an important forum for consultation and negotiation of cooperative solutions to international monetary problems (Ferguson 1988: 27). Its advisory function also placed responsibility on the Fund to review the economic performances of the member-countries by providing them a mechanism for annual consultations as underlined in Article XIV (Ferguson 1988: 27). In addition to this three dimensional role, the 1969 amendment of its Articles guaranteed it a whole new role namely, to supplement the stock of international reserves in case this stock is threatened to become inadequate.

The IMF's responsibilities regarding the management of international monetary and financial relations are diverse. Surveillance of economic and financial relations is an important task in its diverse activities. Surveillance in its present form was established by Article IV of the IMF Articles of Agreement as revised in the late 1970s after the collapse of the Bretton Woods system of fixed exchange rate parities (The Bretton Woods system of exchange rates was an obligation for each country to adopt a monetary policy that maintained the exchange rate of its currency within a fixed value in terms of gold. The arrangement collapsed in 1971, following the United States' suspension of convertibility from dollars to gold). Under Article IV, member countries undertake to collaborate with the IMF and with one another to promote the stability of the global system of exchange rate (Gold 1984: 135, 250).

The IMF provides technical assistance in three extensive areas; (a) design and implementation of fiscal and monetary policies; (b) institution building, such as the development of central banks, treasuries, tax and customs departments, and statistical services; and (c) drafting and review of economic and financial legislation. The IMF also attaches vast magnitude to the training of officials through specially designed courses at its headquarters in Washington, the Joint Vienna Institute, the Singapore Training Institute, and at other regional or sub regional locations (Vries 1976: 578).

Another major function of the IMF is to supply credit to countries experiencing balance of payments troubles. This financial assistance enables countries to rebuild their international reserves; stabilize their currencies; continue paying for imports; and restore conditions for strong economic growth. Unlike development banks, the IMF does not lend for specific projects. The IMF makes its financial resources available to member countries through a variety of financial facilities. Members avail themselves of the IMF's financial resources by purchasing other members currencies or Special Drawing Rights. The IMF levies charges on these drawings and requires that members repurchase their own currency from the IMF over a specified time. IMF finance is generally provided under an arrangement which require the unambiguous policies and actions a country has agreed to apply to resolve its balance of payments problem. The economic program underlying an arrangement is formulated by the country in consultation with the IMF, and is presented to the Fund's Executive Board in a Letter of Intent.

Membership

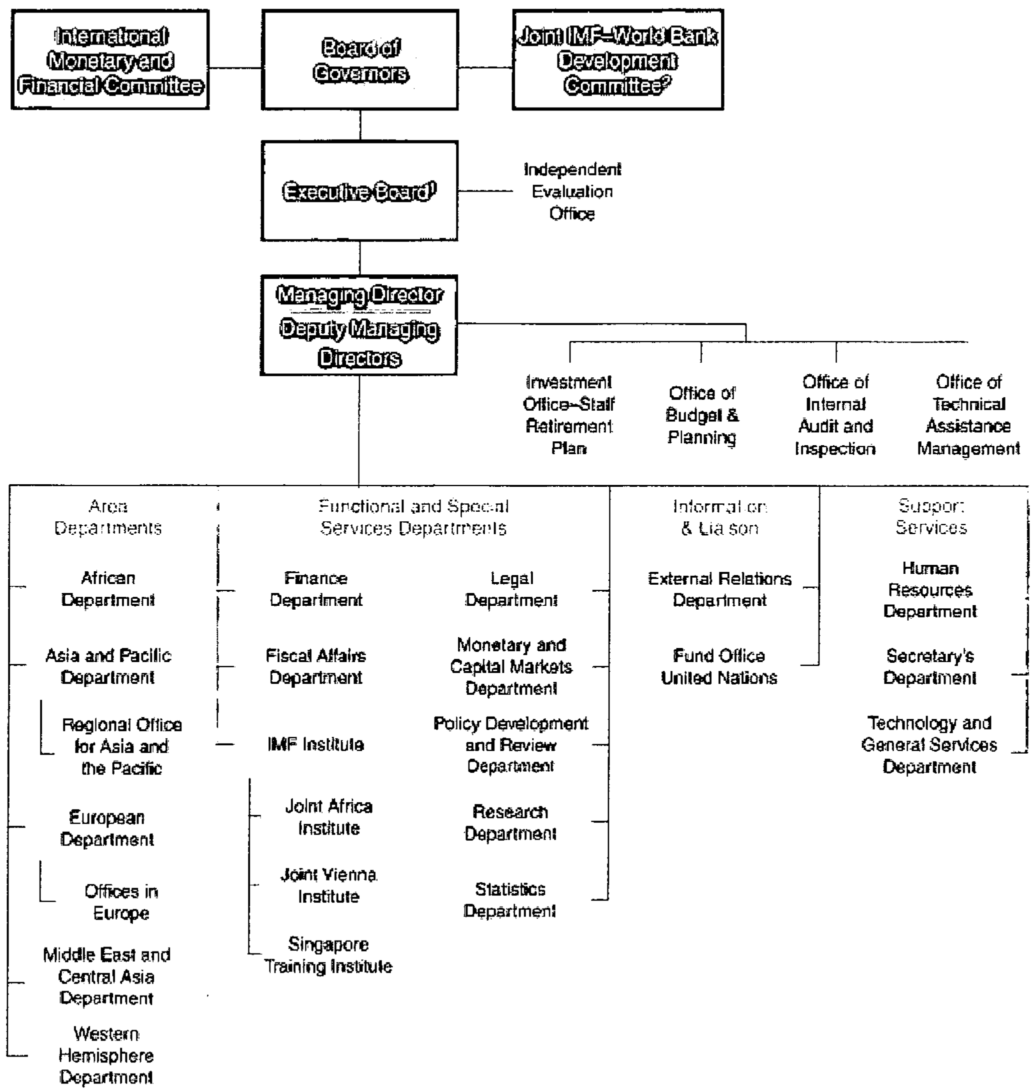
The countries represented in the United Nations Monetary and Financial Conference were set forth in Schedule A for the purpose of quota subscription and considered as original members. According to the Articles of agreement the original members of the Fund were to be countries represented at the United Nations Monetary and Financial

Conference whose governments accepted membership before December 31, 1945. 30 countries can be regarded as original members of the Fund (Gold 1974: 572). Since then there has been a gradual increase in membership – present membership being 185. Montenegro joined the Fund on January 18, 2007, becoming the Fund's 185th member (IMF 2007).

The Fund has a three tier structure: Board of Governors, an Executive Board and a Secretariat, headed by a Managing Director. All members of the IMF are represented in the Board of Governors. Each country sends one governor usually the Minister of Finance or the head of the central bank and one alternate governor. The Boards meets annually, to discuss the policies of the Fund (Gold 1974: 572-577). The composition of the Board makes it rather unwieldy for it to play a more active role in the decision-making process. Like the UN General Assembly, the Board is the larger representative body of the organization and its members.

The next level of decision making in the Fund is the Executive Board. The Executive Board consisting of 24 members is the main decision making organ of the Fund. The Directors are required to carry out the substantive work of the Fund, in terms of the actual decisions. There are two categories of representation on this body: appointed and elected representation. Of the 24 Executive Directors: five are appointed by the members having the largest quotas U. S. A., Japan, Germany, France and U. K. and remaining are elected by the other members. Elections of elective Executive Directors are conducted at intervals of two years in accordance with the provisions and regulations as the Fund. For the purpose of elections, the Fund membership is divided in to various constituencies, which are 19 at present. Saudi Arabia, Russian Federation and China have single constituencies and by that logic they have permanent executive directors on the Board (IMF 2007).

Figure 1-1 Organization Chart of IMF



Source: IMF

The Managing Director of the Fund is the administrative head and he serves as the Chair of the Executive Directors. The IMF's Executive Board is in charge for the selection of the Managing Director. Managing Director cannot be a Governor or an Executive Director. Managing Director also has no vote except a deciding vote in case of an equal division. He is responsible for the organization, appointment, and dismissal of the staff of the Fund. The Managing Director is appointed for a five year, renewable term. Camille Gutt of Belgium was appointed as the first Managing Director of the IMF in May 1946. Dominique Strauss Kahn of France is the 10^{th} and present Managing Director of the Fund (IMF 2007).

An unwritten and informal agreement between United States and European countries, struck at Bretton Woods, favors the arrangement whereby the Managing Director of the IMF is always a European. This has been a point of debate between countries. Developing countries are protesting for years against the tradition of Europeans running the IMF. They are demanding for open competition for the post. The official declaration of Article of agreement (IMF 2007) clearly states for open and fair competition. However, in practice this has never been the case.

Table 1.1 Managing Directors of the IMF

Names	**Country**	**Period**
Camille Gutt	Belgium	May 6, 1946 – May 5, 1951
Ivar Rooth	Sweden	August 3, 1951 – October 3, 1956
Per Jacobsson	Sweden	November 21, 1956 – May 5, 1963
Pierre-Paul Schweitzer	France	September 1, 1963 – August 31, 1973
Johannes Witteveen	Netherlands	September 1, 1973 – June 16, 1978
Jacques de Larosière	France	June 17, 1978 – January 15, 1987
Michel Camdessus	France	January 16, 1987 – February 14, 2000
Horst Köhler	Germany	May 1, 2000 – March 4, 2004
Rodrigo de Rato	Spain	June 7, 2004 – October 31, 2007
Dominique Strauss-Kahn	France	November 1, 2007 – present

Source: IMF

Voting

Voting takes place on the system of quotas. Quotas serve several functions that are essential to IMF operations and that shape the terms under which each member participate in the organization. They reflect member's abilities to contribute to the Fund's operations, determine the amount of resources that member countries can draw from the IMF, translate almost directly into each member's voting weight, in effect its political voice in the IMF's weighted voting system, and determine the allocation of SDRs [Special Drawing Rights or SDR were created in the 1969 to fulfill the financial pool of Fund, SDR are the instrument for financing international trade needs and are connected to a basket of currencies. SDR are a very small proportion of countries gold and foreign currency reserves and their main function is as unit of account (Vries 1976: 138-161)]. Quotas, which are intended to reflect a member country's ability to contribute to the Fund's operations, also determine its voting weight and its representation in the Fund's Executive Board. Each member has 250 basic votes, plus one additional vote for every 100,000 SDR of its quota.

Table 1.2 Distribution of Voting Power at the Executive Level

	Countries	Total Votes	%
1	United States	371,743	16.77
2	Japan	133,378	6.02
3	Germany	130,332	5.88
4	France	107,635	4.86
5	United Kingdom	107,635	4.86
6	Russian Federation	59,704	2.69
7	Saudi Arabia	70,105	3.16
8	China	81,151	3.66
9	Bangladesh, Bhutan, India and Sri Lanka	52,112	2.35
10	Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay	43,395	1.96
11	Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago	53,634	2.42
12	Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia	53,662	2.42
13	Azerbaijan, Kyrgyz Republic, Poland, Republic of Serbia, Switzerland, Tajikistan, Turkmenistan, Uzbekistan	61,827	2.79
14	Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao Peoples Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam	69,019	3.11

15	Bahrain, Egypt, Iraq, Jordon, Kuwait, Lebanon, Libyan Arab Jamahiriya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen	70,852	3.20
16	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden	76,276	3.44
17	Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines	80,636	3.64
18	Australia, Kiribati, Korea, Marshall Islands, Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu	85,360	3.85
19	Albania, Greece, Italy, Malta, Portugal, San Marina, Timor-Leste	90,968	4.10
20	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela,	98,659	4.45
21	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia Former Yugoslav Republic of, Moldova, Netherlands, Romania, Ukraine	1,05,412	4.76
22	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey	1,13,969	5.14
23	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo	30,749	1.39
24	Angola, Botswana, Burundi, Eritrea, Ethiopia, Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia	66,763	3.01

Source: IMF 2007.

The basic votes were intended to perform yet another, although somewhat associated function, to prevent a situation in which, some members might have quotas so small that they would have virtually no real level of participation in the affairs of the Fund (IMF 2007).

The relative size of the quotas are derived from, but not strictly determined by, a complex system of various weighted formulas based on GDP, the values and variability of receipts, payments, and reserves. The formulas have evolved considerably from the single formula decided on at the Bretton Woods Conference, but no clear, persuasive rationale has ever been provided for the set of variables included and excluded, the weights assigned to them, or the distributive outcomes thereby produced. The voting weights derived from quotas have particular importance when considered in the context of the special majorities stipulated by the Fund's Articles of Agreement. There are over fifty categories of decision that require special majorities, most of which are decisions that stand to engage the political or economic interests of major states. Decisions involving matters of policy and operations typically call for majorities of 70 or 85 percent, while more routine, procedural or housekeeping matters are decided on the basis of simple majorities. Eighteen categories of decisions, including decisions entailing constitutional revisions or changes in quotas and thereby also voting shares, must gain an 85 percent majority. This provision means that the United States, with a voting share of over 17 percent, retains the only single-country veto over major Fund decisions, including any decision that would reduce its voting power and increase or decrease that of other countries (IMF 2007).

Financing

The money for most of the IMF's lending come out of its quota possessions- the amounts countries deposit when they join the IMF. Each member's quota is based, in principle, on the relative size of its economy and determines the amount it can borrow from the IMF. Various economic factors are considered in determining changes in quotas, including GDP, current account transactions, and official reserves. A member must pay its subscription in full upon joining the Fund: up to 25 percent must be paid in SDRs or widely accepted currencies (such as the U.S. dollar, the euro, the yen, or the pound sterling), while the rest is paid in the member's own currency (Gold 1984: 90). The largest member of the IMF is the United States, with a quota of SDR 37.1 billion (about $57.8 billion), and the smallest member is Palau, with a quota of SDR 3.1 million (about $4.8 million). Total quotas of the IMF at end-September 2007 were SDR 217.3 billion (about $338.3 billion) (IMF 2007). Apart from this IMF charges high level of duties on its loans. The interest rates depends on market and changes for situation to situations.

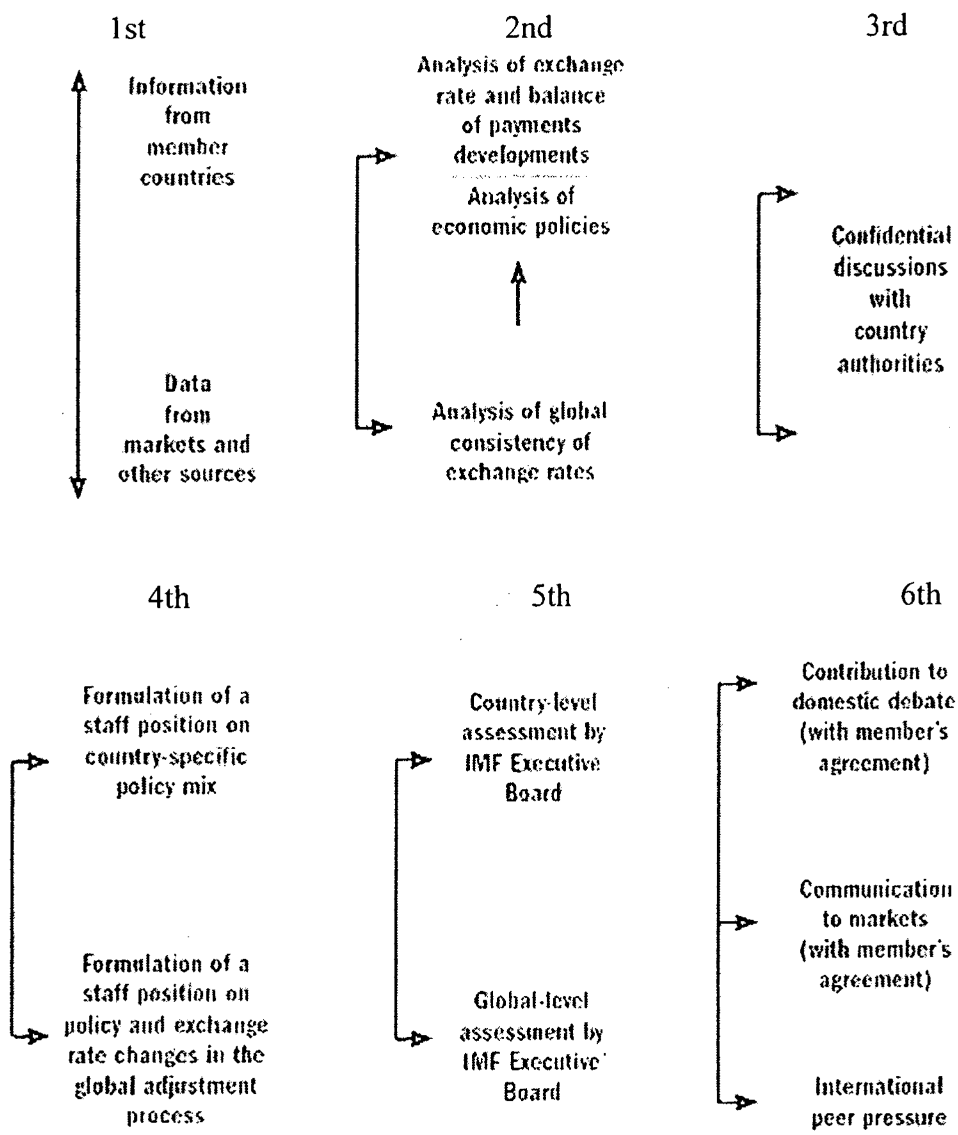
The quota subscriptions of member countries are the major resource of financing for the IMF. In addition, a number of member countries stand prepared to provide additional money to the IMF if these are needed to deal with special circumstances. The first such supplementary source of financing is General Arrangements to Borrow (GAB) and the second is New Arrangements to Borrow (NAB). The GAB was established in 1962 and it enables the IMF to borrow specified amounts of currencies from 11 major industrial countries, under certain circumstances at market-related rates of interest. The New Arrangements to Borrow were established in 1998. The NAB are a set of credit arrangements between the IMF and 26 members and institutions to provide supplementary resources to the IMF to forestall or cope with an impairment of the international monetary system or to deal with an exceptional threat to the stability of that system (Hoover 2007).

The IMF's gold holdings are worth about $103 billion as of end-March 2008, making the Fund the third largest official holder of gold in the world (IMF 2008). In a recent event IMF had decided to sell its gold bullion to stabilize its own shaky finance. After years of budget problems the IMF had lost income as its lending activities have shrunk, and it faced $100 million in cuts from a $900 million budget. The Board authorized the sale of 103 million ounces of gold to set up an investment fund to generate revenue (Weisman 2008: 1).

Policy Instruments

Figure 1-2 provides a glimpse of the policy process that the IMF follows in deciding policy instruments. There are briefly nine types of policy instruments that the IMF provides for borrower countries. These include: Stand- By Arrangements, Buffer Stock Financing Facility, Extended Fund Facility, Structural Adjustment Facility, Compensatory and Contingency Financing Facility, Supplemental Reserve Facility, Heavily Indebted Poor countries Initiative, Poverty Reduction and Growth Facility and the Multilateral Debt Relief Initiative. The policy process may be divided into broadly six main phases. Phase I forms the preparatory phase which includes data collection and information gathering. This is followed by the second phase of analysis where the concerned IMF divisions work on the data and prepare the agenda. Confidential discussions with the borrower countries follow in the third phase. The fourth phase involves the formulation of the IMF position on the subject. The fifth and the sixth phase involve dissemination and approval of the proposed plan by the Executive Board of Directors and the concerned government of the borrower country.

Figure 1-2 Phases in Policy making



Source: IMF

Stand - By Arrangements (SBA)

One of the most important functions of the IMF is to assist member countries experiencing serious payments disequilibria. The central way by which it has provided support in the past is through Stand-by arrangements, by which the Fund can assure a member that it will be able to borrow foreign exchange during a specified period and up to a specified amount, provided the member abides by the terms of the arrangement (Killick et al, 1984: 34). There is no mention of the stand-by arrangement in the original article of Agreement, or even in the amendments which became effective on July 28, 1969.

On February 13, 1952 the Fund took a decision which, for the first time, set forth a general policy on use of the Fund's resources. The decision initiated the Fund's policy of drawings in tranches, made drawings in the gold tranche virtually automatic by practice and specified three to five years as the period for repurchase (Vries, 1986: 338). In June 1952, Belgium became the first country to benefit from stand-by arrangement, whereby the Fund gave a formal commitment for a small fee. Later in the same year the practice of stand-by arrangement were generalized and formalized in a decision of Executive Board (Gold 1970: 20-52).

Stand by Arrangements provides for short term balance of payment aid for deficit of a temporary or cyclical nature, such arrangements are normally for 12 to 24 months. Drawings are phased on a quarterly basis, with their release made conditional on meeting performance criteria and the completion of periodic program reviews. Repurchases are made 2¼ to 4 years after each purchase. It was decided later that the basic rate of charge will be linked directly to the SDR interest rate by a fixed margin that is set each financial year. The basic rate of charge therefore fluctuates with the market rate of the SDR, which is calculated on a weekly basis. The surcharge on high levels of credit outstanding under Stand-by Arrangements (SBA) is 100 basis points for credit over 200 percent of quota, and 200 basis points for credit over 300 percent of quota. This surcharge is designed to discourage large use of IMF resources (IMF 2007). Stand-by arrangements are the most effective technique by which the Fund has been able to persuade members to pursue the policies it favors. The limited period for which a stand-by arrangement can be approved is another drawback. Again the limitations on the extent to which stand-by arrangement can promote growth and development process is also problematic.

Buffer Stock Financing Facility (BSFF)

In 1969 the BSFF was established to provide assistance to members in connection with their contributions to international buffer stocks of primary products, operating in the context of approved international commodity agreements. The BSFF was the Fund's contribution to efforts to stabilize commodity prices, which were seen at the time as excessively volatile, with damaging consequences for the stability of export earnings of developing countries heavily dependent on commodity exports. The BSFF provides support in the context of those commodity agreements whose objective is the stabilization of international prices through market intervention by buffer stocks, and that satisfy certain participation requirements adopted by the United Nations Economic and Social Council, in particular that they are open to participation of both consuming and producing countries, and that they do not maintain artificially high prices through long-term restrictions of supply. The IMF had, as of December 1999, authorized the use of its resources in connection with buffer stocks of cocoa, tin, sugar, and natural rubber. At that time, all eligible commodity agreements had expired. There were no agreements under which drawings under the BSFF could be made. But the Fund has recently been requested to consider whether the International Rubber Agreement (1995) was suitable for BSFF support (IMF 2007).

Extended Fund Facility (EFF)

EFF were designed in 1974 to support medium-term programs that generally run for three years, the EFF aims at overcoming balance of payments difficulties stemming from macroeconomic and structural problems. Performance criteria are applied, similar to those in stand-by arrangements, and repurchases are made in 4½ to 10 years (Bird 1995: 97-150).

Structural Adjustment Facility (SAF)

In response to the particularly difficult situation confronting the low-income members of the Fund, the IMF established in March 1986 a Structural Adjustment Facility (SAF) within the Fund's Special Disbursement Account. This facility provided concessional balance-of-payments assistance—in conjunction with the World Bank and other lenders—to low-income countries eligible for International Development Association loans that were facing protracted balance-of-payments problems and were undertaking comprehensive efforts to strengthen their balance-of-payments position.

In December 1987 the IMF established the Enhanced Structural Adjustment Facility (ESAF). As successor to the SAF, it was similar in objectivity, eligibility and program features, but differed in scope, terms of access, and funding sources. The ESAF was renewed and extended since its creation; in September 1996 the IMF decided to make it a permanent facility, as the centerpiece of the agency's strategy to help low-income countries. It also decided that the IMF's participation in the initiative to lower the debt of the heavily indebted poor countries would be through special, more concessional ESAF operations (IMF 2007).

Compensatory and Contingency Financing Facility (CCFF)

In November 1987, the IMF began to examine the need to address external contingencies in Fund arrangements and the design of appropriate contingency financing mechanisms. These deliberations resulted in the establishment of the Compensatory and Contingency Financing Facility (CCFF) in August 1988. The CCFF incorporated existing facilities—the Compensatory Financing Facility (established in 1963), which provided financial assistance to members experiencing temporary export shortfalls, and the facility providing compensatory financing for excesses in cereal import costs that were largely attributable to circumstances beyond the members control. The CCFF also introduced a new element—the external contingency mechanism (ECM). This mechanism gave members with fund arrangements the opportunity to protect themselves from unexpected, adverse external developments.

The compensatory element of the CCFF is designed to provide compensation to member countries experiencing shortfalls in export earnings and excesses in cereal import costs The eligibility criteria require that the shortfall/excess be temporary and stem from factors beyond the authorities control, and that the member have a balance of payments need. In addition, where the member is experiencing balance of payments difficulties beyond the effects of the temporary shortfall/excess, the member is expected to cooperate with the Fund in an effort to address them. The export shortfall is calculated as the amount by which a member's export earnings for a 12-month period are below (above) their medium-term trend. Other provisions of the CCFF ensure that requests for compensatory financing are met in a timely fashion, in particular that a request cannot be made later than six months after the end of the shortfall year, and that the calculation for the shortfall year may include up to 12 months of estimated data (IMF 2007).

Supplemental Reserve Facility (SRF)

SRF were designed in 1997 to provide financial assistance for exceptional balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence. Repurchases are expected to be made within 1 to 1½ years, but can be extended, with IMF Board approval, to 2 to 2½ years (Bird 1995: 97-150).

Heavily Indebted Poor Countries Initiative (HIPC)

The Heavily Indebted Poor Countries (HIPC) initiative was set up in 1996 by the World Bank and the IMF, to reduce poor countries debts. HIPC is open to low income countries (generally, those with annual income per head of $905 or less), that have debts that are more than one and a half times their annual export earnings and that have a World Bank and IMF programme (Thomas, 2004: 4). Only 23 countries so far have chosen under the programme, these countries are: Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Gambia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia (IMF 2008). HIPC takes too long time more than 10 years and it offers too little money - total cancellation of all un-payable and unjust debt is needed. HIPC does not include all debts: debts are only partially cancelled, and some countries, banks and companies refuse or fail to take part in the HIPC process at all. HIPC is controlled by creditors, rich countries and financial initiations: they do not accept responsibility for their part in creating and maintaining the debt crisis, or allow poor countries to have a say.

Poverty Reduction and Growth Facility (PRGF)

To achieve significant poverty reduction in poor and indebted countries, the International Monetary Fund introduced a new policy framework called the Poverty Reduction and Growth Facility (PGRF) in 1999. The PRGF was introduced, among other things, to replace the Enhanced Structural Adjustment Facility (ESAF) of the IMF as a lending window for poor countries. The PRGF was supposed to usher in a new era of reduced international financial institution conditionalities, but in reality this has not been the case. In countries that were implementing ESAF policies, these were simply renamed PRGF and continued with their restrictive conditionalities, which in many cases included the privatization of public utilities in the various sectors of the economies. Some of the conditions attached to PRGF financing such as user fees for education and health services as well as privatization of water and energy services have proved to be detrimental to social service delivery. The Poverty Reduction Growth Facility consists of a series of targets designed to encourage transformation in the economies and policies of the participating countries, with a view of promoting macroeconomic stability, economic growth and poverty reduction with a six year framework (Afrodad, 2006: 1).

Multilateral Debt Relief Initiative (MDRI)

The Multilateral Debt Relief Initiative (MDRI) was introduced in September 2005 to equip the political and economic result of planning at the G8 summit in Gleneagles in July 2005. The MDRI is to provide 100 percent cancellation of eligible debt stock owed by eligible countries to four multilateral financial institutions, including the World Bank and the International Monetary Fund, and is separate from but linked operationally to the enhanced Heavily Indebted Poor Countries (HIPC) initiative. A significant constraint on national policy space in developing countries in the past two decades has been the uncompromising debt burden shouldered by these countries and the strict economic policy prescriptions accompanying debt renegotiations and access to financing from the IMF (Tan, 2007: 10). The estimated total amount by the IMF in MDRI, excluding remaining HIPC Initiative assistance is around US$ 4.1 billion in nominal terms at end-December 2007. The countries which are benefiting straight away are: Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia (IMF, 2008).

Table 1.3 Main characteristics of the HIPC initiative and MDRI

	HIPC Initiative	**MDRI**
Country coverage	PRFG-eligible countries with debt indicators above the HIPC Initiative thresholds, which have been Engaged in qualifying IMF and IDA-supported programmes.	HIPC countries having reached completion point.
Participating Creditors	All multilateral, official bilateral and commercial creditors of external public and publicly guaranteed debt to HIPCs	IDA, IMF and AFDF.
Debt relief provided	External public and publicly guaranteed debt is reduced to the HIPC Initiative thresholds, as calculated at the time of the decision point	Debt disbursed before end-December 2004 (IMF and AFDF) and end-December 2003 (IDA) and still outstanding at the time of qualification (after the provision of HIPC Initiative debt relief) is Reduced to zero.
Modality of delivery	Different modalities. Most multilateral and Paris Club Creditors also provide interim debt relief.	Stock-of-debt operation at or shortly after the completion point.
Total costs of committed debt relief	US$41.3 billion in end-2005 NPV terms	US$18.3 billion in end-2005 NPV terms

Source: IMF 2007

IMF Conditionalities

IMF conditionalities consist of commitments to implement economic policy in order to access financing. Conditionality consists of commitments to implement economic policy in order to access financing. Article 1 of the IMF agreement specifies that one of the Fund's main objectives is to provide financing temporarily based on adequate safeguards to permit adjustments of balance of payments and avoid measures that may destroy national or international property. There were no provisions for the conditionality when IMF was established (Buira 2003: 55). In 1946 because of U.S. pressure IMF announced that it will give fund only for temporary Balance of Payment crisis. In 1949 scrutiny of application form began. First formal inclusion of conditionality was held in 1952 when Executive board took a decision about Stand by Arrangement, it was the instrument for lending, certain limits, time period and some policy change were mentioned in this arrangement, and if any country wanted to take the loan then it was mandatory to implement these changes. However these were implicit conditions. In 1959 general statement on extension of fund was passed, it was stated that performance and phasing of disbursement of credit would be the two criteria by which loans would be provided. In 1968 review of lending process started and it was declared that there would be uniform conditions for both north and south, and conditionality became part of Article of Agreement of the IMF explicitly in Article 5 sec.3 (c)(d) (Buira 2005: 31).

The IMF issued the guidelines on September 2002 to improve the effectiveness of conditionality. These included: National ownership of programs, implying the need for involvement of the member in the formulation of the program and the authorities' assumption of responsibility for its implementation. Parsimony in the application of conditions, i.e., reducing the number of conditions and focusing them on those measures considered to be essential to overcoming the problem and critical to the success of the program. Tailoring, the program to the member's circumstances, i.e., recognizing and addressing the factors behind the balance of payments problem, while allowing the policy adjustments and financing to reflect the member's preferences and circumstances. Clarity as to essential aspects of the program that must be complied with and the additional measures contemplated whose non observance does not constitute a breach of the agreement that will impair the country's ability to draw on fund resources (IMF 2007).

Concluding Remarks

The chapter has described some key features of the IMF, including its purposes; its decision making structure; the nature of its surveillance over member countries and the global economy; the guidelines that shape its policies; its lending polices and facilities; conditions to its loans. In doing so it has tried to provide perspectives on the constraints and some criticisms. Three forces drive and shape what the IMF try to do (Woods 2006: 179): First, there are interests of their most powerful member countries- very much led by the United States. Powerful countries define the outer perimeter within which organization works. The second set of forces is economic ideas, method and conventions, as shaped by the needs of organization. The IMF faces pressures to come up with programmes that are approved not just by their senior management but by the borrowing governments.

Chapter II

Challenges of Development in Sub-Saharan Africa

The subject of development in Africa presents a pertinent image of the challenges facing humanity. With the conquest and partition of Africa by the European powers and its forcible incorporation in to a world system of exchange based on capitalist production, there were few possibilities of autonomous development in Africa. Africa suffers from extreme level of poverty, lacks far behind in the indicators of human development such as literacy, morbidity, mortality and health, requiring appropriate attention from the rest of world.

The story of Africa has been told from the perspectives of colonial masters, filtered through the lens of long-standing colonial domination of the African nations. According to Eze, for example, among the titans of the Eurocentric grand synthesizers of world history, "Hegel himself had declared the African sub-human: the African lacked reason and therefore moral and ethical content" (Eze 1997: 9). In Britain, David Hume (Miller 1987: 207) held similar, about the superiority of Europeans. History texts, as recorded by European authors, produced a distorted version of the Africa worldview.

The chapter takes a look at the geographical, historical, political, economic, social and cultural parameters of the debate on development in sub- Saharan Africa. It is argued by some that the a regional perspective for a subject as development in Sub- Saharan Africa offers little by way of explanation and that an accurate understanding of development can only be made on a case to case basis i.e. country to country (McEwan and Sutcliffe, 1967: xi). Although it is, of course, true that each country has certain unique conditions and problems, it is both true and necessary to think of Africa as a whole, a single continental mass constituting a region. For the purposes of this study, Africa has been divided into broadly two sub regions: Sub Saharan Africa and the rest of Africa. Sub-Saharan Africa is a geographical term used to describe the area of the African continent which lies south of the Sahara.

Sub-Saharan Africa presents a unique example of diversity. The region has homogeneity and differences, two concepts – that are difficult to reconcile, for example, emergent nationalism coinciding with a growing sense of pan-Africanism.

However, although regional identity is a contested concept, it cannot be ignored. It plays a much more significant role in the new regionalism when compared to the old in sub Saharan Africa. This shared perception of belonging to a particular community can be explained by internal (domestic and regional) as well as external factors. To a certain extent, all regions are imagined, subjectively defined and by nature, cognitive constructions. There is also an inherent sameness in many regions shaped by pre-Westphalia empires and civilizations. Regionalism in sub Saharan Africa is between immanence that is, theorizing about development as inherent in history and an intention or political rhetoric of the leaders to develop their individual countries (Traore: 2007: 2).

Geographical Conditions

Alone among the continents, Africa is positioned astride the equator, extending beyond latitude 35 degree north and longitude 35 degree south (Map 2-1). Africa is a continent of vast proportions. It covers an area of 30,328000 sq. km and contains a population of over 9 hundred million (Best and Blij: 1977: 3). Because of the much greater east west extent of the northern half most of the climate and vegetation belts cover a much larger area than their southern counterparts as is well illustrated in the case of Sahara desert, which covers some 10.4 million sq. km. Africa is not blessed with very many large rivers in proportion to its size, but it nevertheless contains some of the largest rivers in the world, such as Nile, and the Congo. Most of the rivers are not useful for transportation and communication because their courses are frequently interrupted by rapids. Despite these deficiencies some rivers lend themselves readily for use in the production of hydro-electric power, thus giving Africa the highest potential among all continents for the production of this form of energy.

Map 2-1 Political Map of Africa

Source: Herskovits Library of African Studies Map Database (2008)

The countries with the highest potential include Zaire (near about 80000 megawatts), Madagascar (near about 11500 megawatts). The Congo River includes a large interior tropical forest area of almost 3000 miles in length; the lake of east Africa provides the source of the river Niger, wandering 2600 miles to the sea through areas of divergent climate and vegetation. Another large basin includes the Chad region in the central Sudan, the accumulated waters of which flow in to Lake Chad, and the northern Kalahari basin waters form the great Zambezi River which eventually reaches the sea in Mozambique (Asante, 2007: 21).

Africa has great variety in terms of geology and vegetation. An extensive high plateau covers most of the continent. This is composed of a hard, crystalline basal complex that has remained virtually unchanged for millions of years. Some of Africa's most conspicuous physical features, the great rift valley of east Africa, towered by Kilimanjaro, 19565 feet above the sea, and the volcanic peak of Mount Cameroon, 13353 feet high in west Africa. Similarly, neither the mountain ranges, the Atlas mountains in the north-west, the high plateau of Ethiopia and east Africa, the Drakens-bergs of South Africa and the three desert regions, the Sahara, the Somali and the Kalahari, have greatly contributed to the geogological diversity of Sub-Saharan Africa. The effects of this have been negative rather than positive. The most striking feature of Africa is the rainfall, the sharpness of their average seasonal differences, their uncertainty, and their range of intensity and amount. A run of abnormally rainy seasons can be followed by a run of subnormal rainy seasons, to the undoing of many a farming community. The order of magnitude of rainfall differences between two consecutive days, months or season may be 50, 500 or even 5000 percent. It is not uncommon for three to four inches of rain to fall in a single shower, or for a month's rainfall of 10 to 15 inches to fall in half a dozen showers on as many different days. These patterns bring together the problem of food and water supply, which are not made easier by the frequent failure of the seasons to observe the practice of seasonality (Best and Blij, 1977: 9).

East Africa, from Ethiopia to Tanzania, constitutes the great volcanic zone, and while there are extinct and apparently dormant volcanoes, volcanic activity continues in several areas. Outside the east African volcanic region, Mt. Cameroon (13,350 ft, 4000 m) is the largest active volcano in Africa. Offshore, Fernando Po as well as Sao Tome and Principe is volcanic islands, and inland there are areas underlain by comparatively recent volcanic rock, which as in east Africa generates productive soils. Volcanic mountains arose within the rifts (Mount Longonot, 9111 ft), between the rift valleys (Mount Elgon, 14178 ft) and outside the rift Zone (Mount Kilimanjaro). The distribution of African mineral resources should also be viewed in the context of geographical features and differences. Africa's mineral rich backbone begins in south east Zaire, then continues through Zambia's copper belt and Zimbabwe's great dyke and includes the South African Bush-veld basin, where platinum and chromium occur, the Witwatersrand and orange free state gold fields, and the diamond areas that extend to Kimberley in the Republic's Cape Province. Diamonds that are thought to be of African origin have been found in Zimbabwean coal fields form part of a belt that extends from southern Brazil to central India (Best and Blij, 1977: 10).

History

The history as far as Africa is concerned up to little more than a century ago is shrouded in mystery. The first people were small groups of hunters and gatherers. About 10,000 years ago the people began to settle along the Nile Valley and domesticated crops and animals. Local trade routes were established that became the beginning of the ancient civilizations. Earliest civilizations emerged in the highlands of Ethiopia. In West Africa, civilization emerged called the Nok civilization (500 BC. to AD 200). It was famous for its iron making technology and for its trade links with Carthage in North Africa. These civilizations were characterized by permanent settlements and domestication of plants – cereals and roots, and the domestication of animals. They had well established political structures. Empires with political structures and social orders developed with the emergence of ancient civilizations in Sub- Saharan Africa. In West Africa three such empires evolved and constitute present day Savanna and Sahel belts. Ghana AD 700-1070, Mali AD 1230 – 1430, Songhai AD 1460-1590 (McEwan and Sutcliffe: 1967: 10).

Islam was an important organizational force in the empires of Mali and Songhai. Originally Ghana was not Islamic but was later on conquered by Muslims. Fewer civilizations emerged in Southern Africa during the early medieval period. Karanga emerged around AD 1000 to become the present day Zimbabwe. Its capital was great Zimbabwe - a city built in stone without mortar. In east Africa no major civilizations emerged during the medieval period. Instead a number of cities emerged between 700 and 1500 A.D. This was as a result of trade contacts with Arabia and the Indian Ocean. Examples of these city states were: Swahili city states of Mogadishu, Kilwa, Mombassa, and Sofala. A number of reasons can be attributed to the absence of civilization in the interior of eastern Africa such as limited access, sparse population, lack of awareness of its resource potential (around the Congo basin). Absence of empires in southern, eastern and central Africa changed because of a series of migration waves that occurred across each of these regions resulting in a more permanent settlement pattern. Around the end of the medieval period a number of empires or kingdoms emerged. In West Africa some of the empires were the: Tekrur, Wolof, Mande, Wangara, Borgu, Nupe, Kanen-Borno, and the Hausa city states. In east and central Africa were the: Loango, Kongo, Luba, Kitari, Mwene-Mutapa, and Changamire (McEwan and Sutcliffe: 1967: 16).

Most of the empires were spurred by the Bantu migrations from the Benue-Niger river tributaries and the Cameroon highlands to east, central, and southern Africa. Some of the empires or kingdoms still exist today. Most of the migrations occurred about 5000 BC. The migrations ended about AD. 1000 and at that time, the people generally known as the Bantus had extended southwards to the tip of southern Africa. The Bantu migrants encountered some indigenous groups known as *autochthones*. This group did not have any elaborate economic and political associations. The Bantus taught the *autochthones* the art of smelting iron, a superior political and economic structure, cattle herding and crop cultivation such as bananas. These innovations became the spring-board from which civilizations such as the Karanga were established during the medieval period in southern Africa (McEwan and Sutcliffe, 1967: 17).

It is the geographical location of Africa that first attracted the Europeans to come to the continent for market access. European colonial objectives were to build ports along the West African coast and to find a sea route to South Asia and Southeast Asia looking for resources and indentured human labour in the form of slaves. Industrialization in Europe increased the demand for mineral resources and labour. Most of the slave trading occurred along the west coast of Africa and the south western coast of Africa. European powers British and French brought guns and liquor which was used as currency with which slaves were bought. Togo and Dahomay (Benin) became so involved in slave trading that it became a way of life in these kingdoms. Originally, most of those people who were sold to the Europeans into slavery were those captured in tribal wars. As time progressed and the Europeans discovered the value of these people as slaves, the tide changed from selling prisoners of war and criminals to just any person that fell within the confines of the Europeans. This was a new wave of terror alien to African. Women, children, and men were captured and stored in coastal constructed cells to await their transportation abroad. The conditions were poor and it is said that for every slave that arrived the new world at least one or two died in transit. All of these activities were to foster the growth of the industrial might of the west – America and Britain. Slaves were shipped from Africa to the Americas. The slaves grew sugarcane and cotton which was shipped to Britain to produce textiles. The raw materials were converted into manufactured goods and shipped to Africa to buy more slaves (Busia: 1967: 36).

During the Berlin conference of 1884-1885, Africa was partitioned and geometric boundaries superimposed over African traditional tribal boundaries. This resulted in the groupings of peoples of different backgrounds who could not live together (Rwanda/Burundi, the Hutus and Tutsi's) and the separation of groups that were related. For efficient extraction of minerals to the west, administrative structures were installed to ensure law and order and the smooth mobility of commodities. These colonial powers had political ideologies which they relied upon for effective rule. These political philosophies were in keeping with the racist ideologies of the past. Many African countries adopted the British system where there is the separation of the executive from the judiciary and the legislative (Busia, 1967: 38).

The colonial domination of Africa by Europe lasted less than a century. The harsh reality of the forced labour employed in many European enterprises caused outrage among liberal circles when detailed accounts are published in Europe. In most regions African resentment of the colonial presence first developed into political agitation in the period between the world wars. The colonial powers varied in their readiness to relinquish control (Freund, 1984: 41).

During the Second World War, when the British and French exhorted their African subjects to provide military service and labor for a war effort which was intended, in part, to uphold the principle of national self-determination. Post-war Africans were well aware that they were being denied the very rights for which they and their colonial masters had fought. This deepening sense of frustration and injustice set in motion the events which would lead to national independence for most of Africa by the mid-1960s. As the Cold War came to dominate world affairs from the late 1940s, Western Europe worried that its restive African subjects would adopt Communism. This fear was intensified by a series of armed revolts, and by the rise of powerful, though non-violent nationalist movements. Persuaded that colonialism could be preserved only through unacceptably costly military and economic investment, more interested in the post-war reconstruction of their own economies, and increasingly confident that a Western-educated African elite would have little sympathy with Communism, the Europeans began to concede independence to Africans in the late 1950s, beginning with the independence of Ghana in 1957 under its charismatic president Kwame Nkrumah (Lewin, 1996: 23) (Table 2.1).

The two decades separating World War I from World War II were the formative years of African nationalism. Inside and outside of Africa various leaders and intellectuals were sponsoring a pan African movement such as meeting in Paris in 1919 and in Manchester in 1945. These meetings supported the principle of self determination for the African and insisted upon measures being taken to ensure his social and economic betterment. It was not only World War II that focused attention on colonial policy and the political aspirations of African, but also the establishment of a new trusteeship system for all colonies. This was built on the experience of the old mandate system of League of Nations (Freund, 1984: 194).

During the period of colonialism, the economies of Sub Saharan region were entirely subsidiary to the welfare of European powers. The region provided mainly as a sourcing point for raw materials and primary products such as minerals and agricultural goods as well as it was the market of prepared goods for European producers. Because of all of this the region was dependent on external sources of manufactured products. The colonial producers required low-priced rather than accomplished and trained labor; so colonial bureaucrats and political controllers had slight inspiration to grant education and health care facilities for the people of the region. Colonial powers favored to utilize migrant laborers, who left their rural homes for only relatively brief periods to work in mining or plantation regions, rather than employing permanently urbanized workers (Busia: 1967: 144).

Table 2.1 African Countries and their Independence

Year	Country
1957	Ghana
1958	Guinea
1960	Cameroon, Togo, Mali, Senegal, Madagascar, Zaire, Somalia, Benin, Niger, Burkina Faso, Cote D'ivoire,, Chad, The Central African Republic, The Congo, Gabon, Nigeria, Mauritania
1961	Sierra Leone, Tanzania
1962	Rwanda, Burundi, Uganda
1963	Zanzibar, Kenya
1964	Malawi, Zambia
1965	The Gambia
1966	Batswana, Lesotho
1968	Mauritius, Swaziland, Equatorial Guinea
1974	Guinea-Bissau
1975	Mozambique, Cape Verde, The Omoros, Sao Tome And Principe, Angola
1976	Seychelles
1977	Djibouti
1980	Zimbabwe
1990	Namibia
1993	Eritrea

France seemed at first the most willing, giving real power to African politicians in an across-the-board gesture in 1946, but subsequently the French strongly resisted change in Tunisia, Morocco and above all Algeria. Portugal, the pioneer of colonialism in Africa, fought hardest to retain a foothold in the continent - sustaining brutal and costly wars on several fronts until 1975. Britain followed a middle path, ostensibly appreciative of

African aspirations but instinctively seeking compromises which would preserve something of the status quo. Nevertheless the pressure for change in the more developed British colonies proved irresistible. Rhodesia collapsed, in 1979 and elections followed in 1980 and the colony was transformed into Zimbabwe - the last African nation to become independent, though South Africa was the last to achieve self-rule. The African continent thus constituted a group of modern nations, defined by boundaries agreed between the colonial powers. In many cases these boundaries sliced through tribal territories, creating tension between neighboring regimes (Lewin, 1996: 44).

The emerging African nations both benefited from and were harmed by the global competition between the USA and the USSR in the decades after World War II. The chess game of the Cold War made each superpower eager to acquire client states. The advantage of this to the new and impoverished African nations was that resources were easily available in return for unquestioning allegiance and internal suppression of the opposing ideology, whether it was communism or capitalism. The disadvantage was that many unscrupulous dictators in the continent were kept in power by this patronage, enjoying an unchallenged license to line the pockets of their family and entourage. This broad generalization overlooked many and varied exceptions (Lewin, 1996: 186).

The end of the Cold War, in 1989, had a profound effect in Africa. The western nations, no longer needing to support client dictators in the fight against communism, diverted their attention to another shibboleth of the free world - the introduction of democracy. From the early 1990s aid to Africa has increasingly been given with a provision - the legitimization of political parties and the holding of free elections. In many of the resulting elections opposition parties back out at the last moment, observers reported widespread fraud, and presidents and their parties were returned with extraordinarily high percentages of the vote (Cooper, 2001: 278).

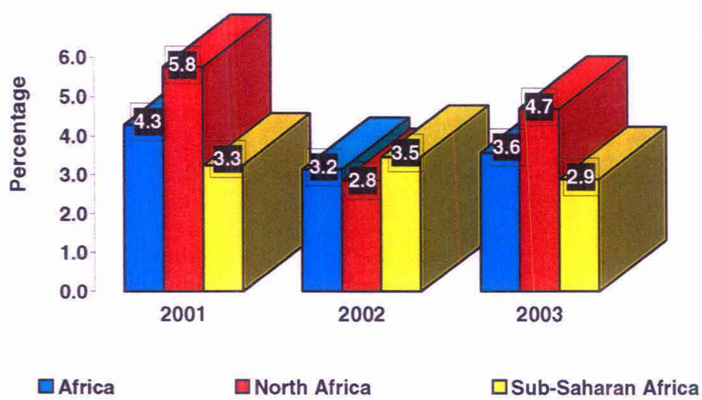
In terms of development strategies several actions have been taken for the development of continent. Various regional organizations and international treaties have been brought for this purpose. The African Union which is an organization of 53 African countries established in 2002 is engaged in various fronts to mitigate poverty and other developmental challenges. A number of protocols have been signed since 1980, including the Charter on Human and People's Rights (1981), Charter on Popular Participation (1990), Protocol of the Rights of Women (2003), the Charter on Youth and Development (2006). While they target particular constituencies, the protocols are meant to promote freedoms and above all to empower people to be involved in decisions affecting their lives. There are also important sub-regional initiatives such the Economic Community of West African States established in 1975 (ECOWAS) Declaration on Political Principles (1991) and the ECOWAS principle on Democracy and Governance (2001). These principles are meant to improve upon the standard of governance, with a view of deepening democracy and popular participation and ultimately empowering citizens (Alokpari 2007, 45).

The New Partnership for African Development (NEPAD) remains Africa's current blueprint document for development. Adopted in 2001, it provides a framework within which Africa is to be aided by industrial countries to address its developmental challenges. Essentially, it aims at eradicating poverty as a precondition for sustained development; encourage employment creation; diversify production to increase Africa's international competitiveness; increase Africa's access to western markets; promote cooperation and integration in Africa; and accelerate the empowerment of women. In pursuing these objectives, NEPAD identifies three areas needing priority attention: peace and security through good governance; increased investments in agriculture, communication, tourism, health and education; and the mobilization of resources through resource transfer to Africa via external assistance of international community (Oberleitner 2005: 186).

Economic Indicators

The aggregate economic performance of Sub-Saharan Africa can be divided into three periods: post-independence growth through the 1960s and the first half of the 1970s, two decades of decline and stagnation after 1975 through 1995, and a period of slow recovery from 1996 onward. Throughout the 1960s, the economies of SSA grew at 2 to 3 percent annually (World Bank, 1989: 12). The early 1970s SSA per capita GDP continued to grow steadily at about 1.5 percent until 1974, peaking at $1,750. Until 1974 the growth trajectory of SSA was largely similar to North Africa's trajectory, but at a lower income level. The entire African continent along with the rest of the world went into a recession following the oil shocks of 1974. The economies of North Africa recovered from the shock quickly, but for SSA economies the oil shock and the recession of 1975 had severe long-term consequences. From 1976 onward, one sees a clear divergence in economic growth between North Africa and SSA; the former were able to maintain positive-albeit not spectacular-growth, while the latter proceeded to decline until 1995. The average growth rate in SSA dropped to negative 1.2 percent in the second half of the 1970s, oscillated around zero from 1980 to 1985, and finally reached a record low of 1.5 percent in the first half of the 1990s (Noyoo, 2000: 454).

Figure 2-1 Comparison of growth performance: Africa, North Africa and Sub-Saharan Africa



Source: ECOSOC Report on Africa 2004

According to the report of ECOSOC (2004: 5) the 1990s proved a crucial decade for SSA. After reaching its lowest—since the late 1960s—mark of $1,500 in 1993-1995, SSA's mean per capita GDP slowly began to recover; SSA showed positive aggregate growth for the first time. In the early 1980s, SSA's level of per capita income, reported in 1995 PPP terms, was approximately the same as East Asia, but over the two decades the two regions diverged sharply. SSA's per capita income declined by nearly 26 percent during 1980-2002, while East Asia's almost quadrupled. Aggregate growth indicators for the Sub- Saharan region mask a wide range of cross-country variation, largely independent of average income per capita. From 1980 to 2002, 19 out of 44 countries marked on average, negative or zero growth. Sierra Leone and Zaire display the worst growth record with per capita income contracting at the rate of 3 and 2.7 percent per year, respectively. Equatorial Guinea, on the other hand, experienced the fastest growth in the region, on average 26.5 percent per year, owing of course to the oil boom which began in the mid-1990s. The other top performers are Botswana and Mauritius, where GDP per capita grew of 4.9 and 4.3 percent annually, respectively.

Table 2.2 Real GDP Growth Rate of the Countries

	1997-2001	2002	2003	2004	2005	2006	2007
Oil-exporting countries	4.2	4.4	7.3	8.7	7.9	5.6	11.6
Angola	3.0	14.5	3.3	11.2	20.6	15.3	35.3
Cameroon	4.8	4.0	4.0	3.7	2.0	3.5	4.0
Chad	4.5	8.5	14.7	33.6	8.6	1.3	-1.2
Congo, Rep. of	2.4	4.6	0.8	3.6	7.7	6.4	3.7
Cote d'Ivoire	1.5	-1.6	-1.7	1.6	1.5	1.4	1.7
Equatorial Guinea	57.3	24.7	12.5	33.9	6.5	1.0	7.1
Gabon	0.1	-0.3	2.4	1.1	3.0	1.0	4.7
Nigeria	2.7	1.5	10.7	6.0	7.2	5.3	8.2
Oil-importing countries	2.8	3.3	3.1	5.2	5.4	5.3	5.2
Benin	5.2	4.5	3.9	3.1	2.9	4.1	4.7
Botswana	8.2	5.6	6.3	6.0	6.2	4.2	4.3
Burkina Faso	5.9	4.7	8.0	4.6	7.1	6.4	6.5
Burundi	1.1	4.4	-1.2	4.8	0.9	5.1	5.5
Cape Verde	8.3	5.3	4.7	4.4	5.8	5.8	6.5
Central African Republic	3.4	-0.6	-7.5	1.3	2.2	3.5	4.0
Comoros	2.4	4.1	2.5	-0.2	4.2	1.2	3.0
Congo. Dem. Rep. of	-4.1	3.5	5.8	6.6	6.5	5.1	6.5
Eritrea	1.2	0.6	3.9	2.0	4.8	2.0	1.3
Ethiopia	3.8	1.2	-3.5	13.1	10.3	10.6	6.5
Gambia, The	5.8	-3.2	6.9	7.0	5.1	6.5	7.0
Ghana	4.2	4.5	5.2	5.6	5.9	6.2	6.3

Guinea	4.1	4.2	1.2	2.7	3.3	2.8	2.5
Guinea-Bissau	-1.1	-7.1	-0.6	2.2	3.2	2.7	5.0
Kenya	2.3	0.3	2.8	4.5	5.8	6.0	6.2
Lesotho	0.5	2.8	3.0	3.8	3.7	5.6	5.1
Liberia	n.a.	31.8	-33.9	-5.2	9.5	9.7	13.3
Madagascar	4.6	-12.7	9.8	5.3	4.6	4.7	5.6
Malawi	1.6	2.1	3.9	5.1	2.1	8.5	5.7
Mali	5.1	4.3	7.2	2.4	6.1	4.6	5.9
Mauritius	5.7	1.5	3.8	4.7	3.0	3.7	4.1
Mozambique	9.2	8.2	7.9	7.5	7.8	8.5	6.8
Namibia	3.4	6.7	3.5	6.6	4.2	4.6	4.8
Niger	3.7	3.0	4.5	-0.7	6.8	3.4	4.1
Rwanda	8.6	9.4	0.9	4.0	6.0	4.2	4.7
Sao Tome and Principe	2.6	4.1	4.0	3.8	6.0	8.0	7.0
Senegal	4.6	0.7	6.7	5.6	5.5	3.3	5.6
Seychelles	3.7	1.2	-5.9	-2.9	1.2	4.5	5.0
Sierra Leone	-0.9	27.4	9.5	7.4	7.3	7.4	6.5
South Africa	2.5	3.7	3.1	4.8	5.1	5.0	4.7
Swaziland	2.8	2.9	2.9	2.1	2.3	2.1	1.2
Tanzania	4.4	7.2	5.7	6.7	6.8	5.9	7.3
Togo	0.2	-0.2	5.2	2.3	1.2	1.8	2.9
Uganda	5.5	6.9	4.4	5.7	6.7	5.4	6.2
Zambia	2.4	3.3	5.1	5.4	5.2	6.0	6.0
Zimbabwe	-2.4	-4.4	-10.4	-3.8	-5.3	-4.8	-5.7
Sub-Saharan Africa	3.1	3.5	4.0	6.0	6.0	5.4	6.7

Source: IMF, Regional Economic Outlook 2007

Artadi and Sala-i-Martin (2003: 15) has stated that agriculture is undoubtedly the most important sector in the economies of most non-oil exporting Sub- Saharan African countries. It constitutes approximately 30 percent of its GDP and contributes about 50 percent of the total export value, with 70 percent of its population depending on the sector for their livelihood. Production is subsistence in nature with a high dependence on the rain. Yet farmers' yields have essentially stagnated for decades. Although total output has been rising steadily — often by simply extending the land area under cultivation — this growth has barely kept pace with Africa's increasing population. Food production in particular has lagged, so that the number of chronically undernourished people increased from 173 million in 1990-92 to 200 million in 1997-99 in Africa, the latest years for which accurate figures are available. Of that total, 194 million were in Sub-Saharan Africa. This growth in hunger has come despite high levels of food imports — costing \$18.7 bn in 2000 alone. Some 874 mn hectares of land are deemed suitable for agriculture, but 83 per cent of that area is subject to serious limitations such as poor soil fertility. About 16 per cent of Sub- Saharan Africa's soils are categorized as "low nutrient," compared with just 4 per cent in Asia. Each year, the depletion of existing soil nutrients brings crop losses estimated at between \$1 bn and \$3 bn. These nutrients are not being replaced. Total fertilizer input in Sub-Saharan Africa is just 9 kilogrammes per hectare, compared with 100 kg in South Asia, 135 in East and Southeast Asia, 73 in Latin America and 206 in the industrialized countries.

Agricultural policies in sub-Saharan Africa have increasingly relied on the private sector to support and drive development, but haven't addressed the many practical difficulties facing private investors and farmers. New policies and action are needed to help farmer's access marketing, financial, technical and information services and to help make it profitable for businesses to provide these services. There are many difficult challenges in this, but this is how smallholder development has grown and driven growth elsewhere in the world. The markets that governments are to encourage should provide small-scale farmers with market outlets and necessary production inputs. The social capital and trust needed for trade to take place over long distances, where personalized networks no longer suffice, need to be built or re-built. Traditional power structures may need to be reformed, for markets of a more broadly inclusive character to evolve. There are as well essential gender aspects to take into consideration, not only in intra-household relationships, but also when it comes to market access more generally (Gordon, 1994: 28). In particular, many prevailing land tenure systems carry as well important gender implications concerning issues such as women's inheritance rights, incentives for investments.

Table 2.3 Economic Indicators for Sub-Saharan Africa

	2002	2003	2004	2005	2006	2007
Real GDP	3.5	4.0	6.0	6.0	5.4	6.7
Of which: Oil exporters	4.4	7.3	8.7	7.9	5.6	11.6
Oil Importers	3.3	3.1	5.2	5.4	5.3	5.2
Real non-oil GDP	3.8	3.3	5.5	5.7	6.4	7.4
Consumer prices (average)	9.9	9.7	6.1	8.1	7.2	7.1
Of which: Oil exporters	18.8	17.0	12.5	13.2	7.7	6.6
Oil Importers	7.6	7.7	4.3	6.7	7.1	7.3
Per capita GDP	1.5	2.0	4.1	4.0	3.4	4.7
Exports of goods and services	32.4	33.8	36.0	39.3	42.1	40.6
Imports of goods and services	32.8	33.3	34.6	35.9	38.8	39.6
Gross domestic saving	15.5	18.6	21.0	22.2	23.2	21.5
Gross domestic investment	16.4	18.7	19.3	19.2	20.4	21.4
Fiscal balance (including grants)	-2.7	-2.2	-0.4	1.5	4.1	-0.1
Of which: Grants	1.5	1.6	1.5	1.5	1.4	1.3
Current account (including grants)	-3.3	-2.5	-1.8	-0.6	-0.6	-1.7
Of which: Oil exporters	-8.0	-3.6	2.5	8.0	10.6	7.4
Terms of trade (percent change)	1.0	1.1	2.7	8.5	9.8	-5.1
Of which: Oil exporters	5.3	1.0	7.8	28.1	14.8	-10.0
Oil importers	-0.5	1.2	0.8	-0.7	6.0	-1.5
Reserves (in months of imports)	4.4	4.1	4.9	5.3	6.2	6.8
Oil price (U.S. dollars per barrel)	25.0	28.9	37.8	53.4	64.3	60.8
Advanced country import growth (in percent)	2.6	4.1	9.1	6.1	7.4	4.7
Sub-Saharan Africa	3.7	4.2	6.0	6.0	5.7	6.8

Source: IMF, Regional Economic Outlook 2007

In 2005 the share of SSA in global trade (exports plus imports) has declined from about 4 percent in 1970 to about 2 percent at present. This long term decline is traceable to such factors as macroeconomic instability, high and cascading tariff structures, and unfavorable cost structures due to poor business environments, small domestic markets, and high indirect costs (Gupta and Yang, 2006: 17). However, the region's export prospects have improved with the recent commodity boom. Because it is well endowed with natural resources, SSA has benefited from the boom, which has reoriented its exports toward rapidly growing economies. Continued rapid growth in Asia offers SSA opportunities to reverse the long-term decline in its trade share. Since most domestic markets in SSA are small, exports to Asia give SSA producers opportunities to vastly expand their markets.

Table 2.4 Export Destinations from the Region and Exported Materials

Destination	Year	Crude Materials	Food and Beverage	Fuels	Manufactures	Total
		Oil Producers				
EU15	1990	78.4	87.6	46.9	94.2	55.5
	2005	56.0	76.6	19.2	74.1	24.3
USA	1990	2.7	10.5	52.1	4.7	42.0
	2005	4.9	19.5	57.8	15.6	53.4
Asla	1990	18.9	1 8	1.4	1.1	2.5
	2005	39.1	3 S	23.0	10.3	22.3
Of which: China	1990	3.5	0.2	0.4	0.4	0.3
	2005	29.5	0.5	14.7	2.7	14.2
Product share of total exports	1990	7.9	9.2	77.9	4.9	...
	2005	3.3	4.7	89.7	2.1	...
		Coastal				
EU15	1990	68.2	76.5	73.2	59.6	66.6
	2005	43.3	79.6	91.7	47.5	56.0
Excluding South Africa	1990	74.7	77.6	54.0	67.9	72.6
	2005	45.2	84.0	32.9	75.5	73.4
Asia	1990	23.1	18.4	23.6	17.5	19.5
Excluding South	1990	19.1	15.1	5.6	20.8	18.0

Africa						
	2005	46.2	11.9	2.7	4.9	14.1
Of which: China	1990	0.4	0.4	0.2	0.4	0.5
Excluding South Africa	1990	2.8	0.4	3.6	1.3	1.3
	2005	32.4	1.1	0.0	0.2	5.6
Product Share of total exports	1990	20.5	23.1	9.0	45.0	...
	2005	12.8	14.6	7.6	60.6	...
Excluding South Africa	1990	18.1	38.1	1.3	39.6	...
	2005	15.7	38.7	0.9	43.7	...
		Landlocked				
EU15	1990	62.7	74.8	9.8	77.3	70.6
	2005	34.3	69.8	33.7	48.1	50.0
USA	1990	4.1	13.2	90.2	10.5	15.0
	2005	2.0	12.2	59.5	38.0	23.2
Asia	1990	33.2	12.1	0.0	12.3	14.4
	2008	63.8	18.0	6.8	13.9	26.8
Of which: China	1990	3.1	3.0	0.0	0.7	1.6
	2005	40.1	8.4	0.0	1.7	13.0
Product share of total exports	1990	14.4	27.5	4.8	49.9	...
	2005	27.6	27.6	6.0	40.5	...

Source: IMF, Regional Economic Outlook 2007

Development Challenges

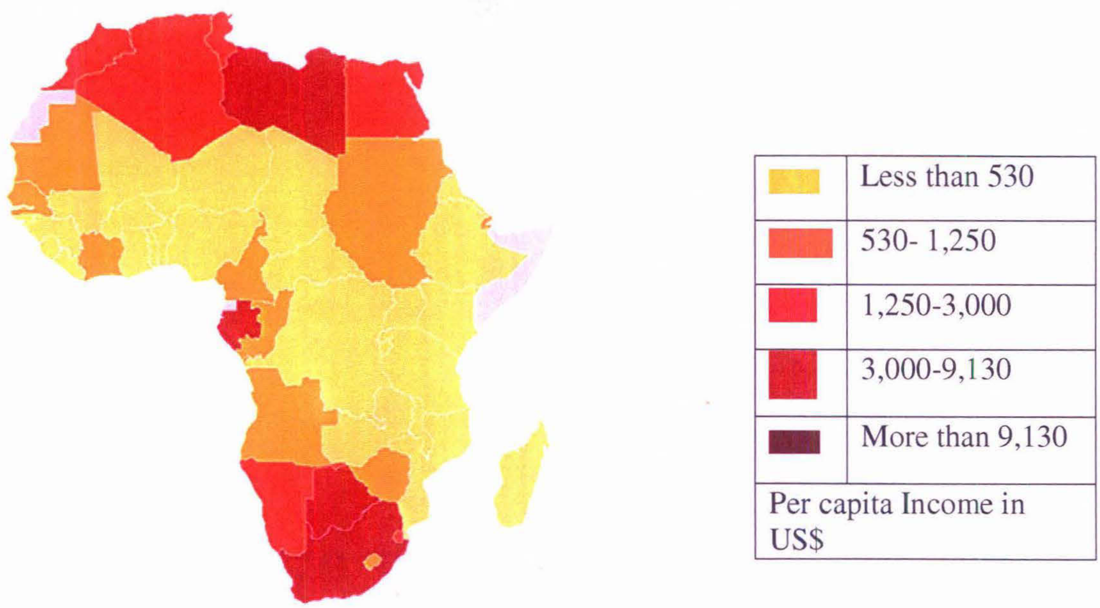
Over 40 percent of its 800 million people live below the poverty line and this percentage is predicted to rise. Over 28 percent of all children in SSA are underweight as a result of malnutrition. And, while the average percentage of under nourishment in the developing world is 17, that for SSA is 33 percent (UNDP 2005: 240). In the case of SSA, the negative impacts of globalization outweigh its positive outcomes. Among other things, globalization integrates SSA economies into the bigger global economy; it opens up Africa's economies to global competition in which the former are simply too fragile to successfully compete; Africa's economies have been delivered to multinational companies who flout environmental laws with impunity, while regional and social inequalities have been deepened by the different abilities of people and regions to respond to the challenges posed by globalization or tap the opportunities it creates.

During the colonial rule and even after independence trade regimes were highly protected and high priced inefficient products proved to be no substitute for cheaper, efficient products from the capitalist core. Protectionism, in many cases, prevented countries from importing into their countries inputs needed for enhanced industrialization. Increased intra-regional trade, the major objective of market integration, was, for the most part, not realized, partially because member countries produced similar products and therefore they did not have comparative advantages.

Scholars like Chen and Ravallion (2004: 142) through their writings have emphasized upon the tremendous levels of divergence between poverty rates in SSA and the rest of the world. While SSA experienced an increase in poverty from the early 1980s to early 2000, the average poverty rate for the world fell tremendously as a result of massive improvements in living standards in East Asia, and in particular China. Chen and Ravallion (2004: 143) estimate that in 1981 the average poverty rate for the world was 40.4 percent, only slightly below the SSA average; yet it fell by nearly a half in 1981-2001 to 21 percent at the same time that poverty increased in SSA by 11.5 percent. The differential between rural and urban areas in Sub- Saharan countries is substantial and has remained fairly constant over time.

Sahn and Stifel (2000: 2125) calculate relative poverty lines for 11 SSA countries. For each country the poverty lines are set at the 25th and 40th percentile of the national distribution. In all countries poverty is largely a rural phenomenon; rural poverty headcounts are many times higher than the urban ones. Zimbabwe in 1992 provides the most striking example of rural-urban differences in poverty incidence; the rural poverty headcount was 164 times higher than in urban areas. In Zambia in 1992 and in Kenya in 1993, rural poverty rates were respectively 37 and 27 times higher than the urban rates. Despite the overall decline in poverty in the 1990s, the gap between the rural and urban areas in terms of poverty incidence has increased in the majority of the sampled countries, because urban poverty rates declined faster than the rural ones. Poverty proves particularly resilient in rural areas.

Map 2-2 Poverty in Africa



Source: World Bank 2004.

From the mid-1970s to the mid-1990s Sub- Saharan economies were in a period of economic decline, but showed slow recovery since 1996. Second, during this time income poverty steadily increased, notwithstanding the differences in estimates of the extent of the increase. Notably, poverty in SSA grew while the rest of the world experienced a dramatic reduction in poverty rates. In terms of education and health outcomes, people's welfare in SSA improved in the 1960s, 1970s and 1980s, but deteriorated in the 1990s (UNDP 2005: 25). SSA has one of the highest average regional income inequality levels, and high income inequality within countries has remained more or less constant over the last four decades, despite the fact that between- gender inequality in educational attainment has dramatically declined. The rural-urban gap did not show any systematic improvement for the Sub- Saharan region as a whole. In the vast majority of Sub- Saharan countries, poverty-measured in economic terms as well as in terms of access to health and education-is concentrated in rural areas.

Investment is crucial to growth both in the classic Solow model and in the endogenous growth model. Both models suggest that growth in SSA is correlated with investment. Over the last 40 years investment in SSA averaged at 12 percent, while in OECD countries the investment rate over the same period was around 23 percent and for East Asian countries the investment rate was 30 percent, on average. Time-wise, investment in SSA peaked around 1974 at around 14 percent, after which it started to decline up until the mid-1990s, dropping to 7.5 percent; Investment is bound to be low when the expected returns on investment are low. In SSA, the rate of return on investment was equivalent to approximately 1/3 of the average rate of return to investment in other regions (Collier and Pattillo, 2000: 25).

Conflicts have also had significant negative impact on human welfare. They have directly impacted the well-being of individuals by causing death and suffering for the victims and their family members. In a less direct fashion, conflicts have affected welfare by undermining economic life of the societies where they have taken place, devastating physical, social, and human capital. They have destroyed investments, leading to the migration of skilled labor, eroding social cohesion and trust, and channel public spending away from productive activities. Internal conflicts disproportionately have afflicted developing societies, and take a particularly high toll on Sub-Saharan African countries. Between 1987 and 1997, more than fourteen internal conflicts were fought in Africa, fourteen in Asia, and one in Europe (World Bank, 2000: 5). During 1990-95, Sub-Saharan Africa accounted for approximately 40 percent of the incidence of civil war and strife in the developing world (World Bank 2000: 7). Violent conflict or a real threat of violent conflict is an obvious fact of life in many African societies and without exploring the link between conflict and welfare any discussion of development in Sub-Saharan Africa would be incomplete.

Africa's insecurity crisis is enormous and visible. Its poverty levels are high and set to increase. Poverty feeds into the HIV/AIDS pandemic, which is rocking the region. In addition, intra-state conflicts have become frequent and protracted, while environmental degradation has become rapid. While there is global consensus on focusing on "human" as opposed to "state" security, there has been scant analysis on the fundamental sources of human insecurity (Alokpari, 2007: 3). In the case of SSA, the tendency has been to adopt the usual neo-liberal formula and point to factors that are predominantly internal to the region. It has been argued that what is frequently regarded as internal causes of insecurity such as poverty, conflicts, environmental degradation, food, health and educational insecurities, are in fact manifestations of the crisis.

Chapter III

The International Monetary Fund and Sub-Saharan Africa

An assessment of the impact of the International Monetary Fund (IMF) policies and programmes in Sub-Saharan Africa (SSA) necessitates an historical perspective. The stated objectives of IMF policies and programmes in SSA have been to offer technical advice, economic diagnoses, strategies and models, fight poverty and adjust disequilibria in the balance of payments in the interests of the growth of free international trade and payments. This chapter focuses on the work of IMF in SSA and on the implications of its activities in the region.

Stabilization of balance of payment has been the primary functions of the IMF. The IMF does it with the help of various programmes and facilities such as Standby Arrangement (SBA), Extended Fund Facility (EFF), Compensatory and Contingent Financing Facility (CCFF), Buffer Stock Financing facility (BFF), Oil Facility, Trust Fund Loans and the Structural Adjustment Facility. The purpose is to assist with the elimination of disequilibria in the balance of payments of member countries through either drawing from their contribution to the fund (this is the first Tranche), or their request for Extended Fund Facility (the second Tranche) which attracts tough preconditions. The Fund's commitment to payments adjustment is to ensure the free flow of international trade and its growth without exchange restrictions. The IMF's role in SSA has involved it in sending several missions, preparing reports and making wide-ranging policy recommendations on agrarian reform, infrastructural development, pricing policy, export promotion etc.

Sub- Saharan Africa came to rely heavily on the IMF during 1960s but its activity became intensive in the region in the 1980s. The 1970s oil price rises, the raising of U.S. interest rates, and subsequent contraction in the global economy in 1979, the appreciation of U.S. dollar, and the ongoing volatility of commodity prices rocked the region. Sub-Sahara Africa was potentially a showcase for the financial expertise of the IMF because unlike other regions of the world, the country level work of IMF was not overridden by threat to international financial stability. Many African governments had limited capacity to analyze global economic trends and shocks. Thus the IMF had a very good bargaining position in the Sub- Sahara Africa.

Representation and Voice

Sub- Saharan African states were still colonies at the founding of the IMF, therefore their interests were not directly represented. Following independence, their experience in the IMF was marred by the unequal distribution of voting power within the IMF's decision making structure. Decision making in the IMF takes place through Board of Executive Directors (ED). For each ED, number reflects the combined votes of the states he represents. Initially, every member states were given 250 basic votes, with additional votes – quota for the IMF being added to reflect economic standing in the world economy. Over time, the significance of the basic vote has diminished, as the formula to attribute votes has increasingly favored economically strong country on the basis that they meet capital requirements. Thus in the IMF, by 1999 basic votes as a share of total votes stood at 2.1 percent, compared with 11.3 percent in 1944 (Thomas 2004: 58). Yet it is noteworthy both that the increased economic power of Asian countries has not been reflected in their share of votes, and also that the increased share of IMF funding via loan repayments, arrangement fees etc., has not been reflected in changed voting distribution. The task of representing 44 SSA countries falls largely to the two African EDs.

As Thomas (2004: 67) emphasized that the political profile of the issue of representation and voice in the IMF grew rapidly at the turn of new century. Increasingly, the western industrial countries and their groups such as G8 (Group of eight industrialized and developed countries) used their summits and other venues to set policies and it was appeared that the international financial reform agendas to be set in the annual summits of these economically power countries. The G8 had established an exclusive discussion forum on economic and financial matters, involving themselves and a select group of those countries whose economies they considered the most important such as China and India, with representation from the IMF. For example in 1999 they created the G20

(Group of twenty developing countries), in fulfillment of their commitment at the June G8 summit at Cologne to establish an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system. The only SSA country to be represented was South Africa.

The industrialized countries have adopted a minimalist reformist perspective, geared towards incrementally enhancing the effectiveness of the two EDs representing SSA within the existing governance structure. Reform measures would include increasing the number of support staff in the African EDs' offices, increasing the African EDs' communications links with national capitals and developing African national capacity for engagement with EDs. They argue that such measures are underway, for example through the IMF's African Capacity Building Initiative and associated African Regional Technical Assistance Centers. The latter will train Africans locally in the core competencies of the IMF. A further suggestion is the creation of a trust fund to provide research and technical support to individual EDs and to the G-24. These reformists argue against the creation of new seats on the Boards, not on the basis of legitimacy issues, but rather speed and efficiency of decision-making. In terms of representation and voice for SSA states, changes in the relationship with the IMF are limited and soft. Enhancing the effectiveness of the existing two African ED posts is a necessary, but totally insufficient, condition for increasing African representation and voice. Without changing the structure of voting power on the Boards, such actions amount to doing something without doing anything. SSA states as clients of the IMF, the impact of changes to date has been quite limited.

According to the Feinberg (1991: 34) extensive certified corruption is one critical area likely to be embattled in the reform memo. In the past, Fund lending decisions occasionally were influenced by the political motives of major shareholders, and their economic advice could also be seen as ideologically based. But these political motives were distinct from concern for the domestic political practices of borrowing states. Among the donor populace, there is mounting concern that foreign assistance is seemingly wasted on self-interested governments whose behavior is antithetical to their own values. In particular, vocal, well organized, and often well informed private voluntary organizations are among those most critical of official assistance to kleptocratic regimes in the developing world. From a purely economic perspective, gross corruption often makes it more difficult for governments to implement agreed upon policies and decreases the overall efficiency of resource allocation. For private investors, illogical and impulsive implementation of government regulations adds to the uncertainties of doing business in Sub-Saharan Africa. Indeed, one serious obstacle to private investment and growth in Africa is that everything is open to negotiation with government officials.

Development and Growth

The Sub- Saharan African economies have experienced the numerous bottlenecks since independence in the 1960's. Almost all the economies of the region, the steady growth of the early years after independence gave way to stagnation and eventual decline. At independence, most economies were geared towards primary commodity production which accounted for the largest share of the GDP. For example, the production of primary goods and horticulture products such as coffee, cocoa and cotton etc. contributed 48 percent of GDP in Zambia over 1964-9, 39 percent in Kenya in 1964-8, and 64 percent in Nigeria in 1960 (Adepoju 1993: 165).

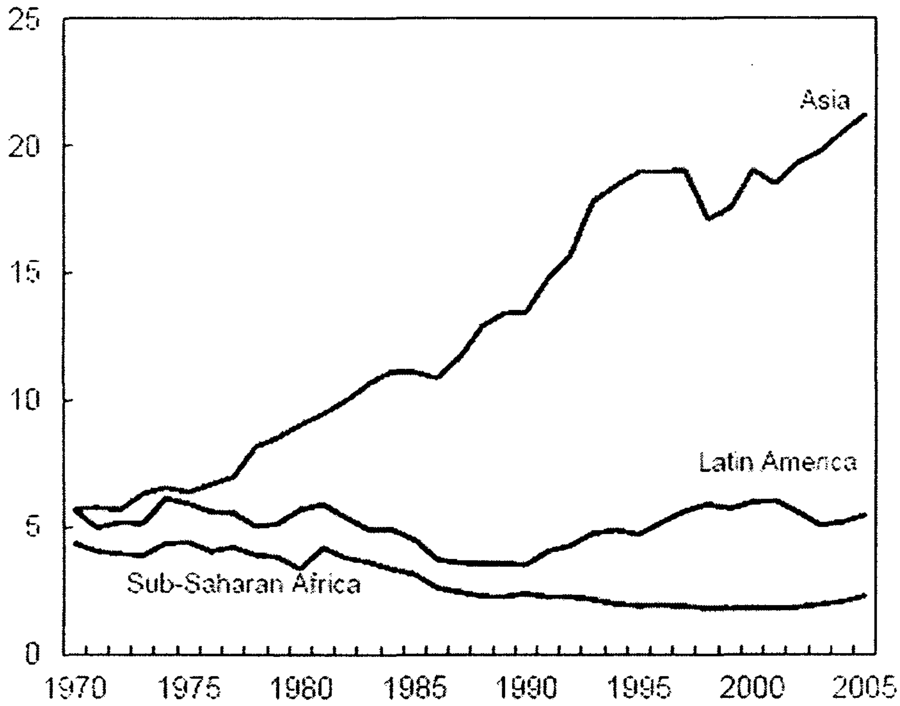
The first request for the loan form the IMF funds actually came from a Sub- Sahara country; Ethiopia, on April, 1947 for $900,000. The Board turned it down since they were skeptical that so large an amount could be presently needed although it approved a subsequent request in 1948 for a third of the amount (Ethiopia and South Africa were the first two African countries to draw from the IMF) (Adepoju 1993: 18). In the 1960s standby agreements (Stand-by agreements are the facilities by which the Fund can assure a member that it will be able to borrow foreign exchange during a specified period and up to a specified amount, provided the member abides by the terms of the arrangement) dominated the Fund agenda in Africa. Between 1960 and 1972, 51 standby agreements were signed between the Fund and 12 African countries (43 with 10 Sub-Saharan African countries). In 1962, Egypt was the first country to sign a standby accord with the IMF in 1962 followed by Liberia in 1963 and Mali, Somalia and Tunisia in 1964. Loan amounts were typically small and under SDR 10 million. Only Egypt, Ghana, Sudan and Zaire had loans of higher amounts of between 20 and 40 million SDRs (Stein 2004: 83). Overall, the role of the Fund in Africa was minor. Only 3.7 percent of Fund credit went to African countries during the 1960s (Ferguson 1988: 78).

During 1960s and early 1980s government's economic activities eventually developed into bottlenecks to development, as many public sector enterprises, riddled with in inefficiency and corruption, and consumed more and more scarce resources. Throughout the period, government spending consistently outstripped revenues, resulting in large domestic savings bank borrowing at the expense of the private sector. Low growth, poor export performance, high debt burdens, and severe financial imbalances finally forced many economies of the region on to the road of economic reform.

The IMF exposure in SSA had increased the most under tranche policies. At the end of 1977 such credit to countries in SSA under the auspices of the African Department of the Fund amounted to only SDR 0.15 billion. At the end of 1986 two third of the SSA countries had Fund credit outstanding under tranche policies. Seven SSA countries had made drawing amounting to more than 200 percent of their quotas during the 1980s; those were Ivory Coast, Uganda, Malawi, Kenya, Zambia and Ghana (Stein 2004: 49).

In the 1970s Sub-Saharan Africa began to use some of the new facilities such as Compensatory and Contingency Financing Facility (CCFF was established to provide compensatory financing for members experiencing temporary export shortfalls or excesses in cereal import costs, as well as financial assistance for external contingencies in Fund arrangements). In 1975 91 percent of 262 million their net-SDR borrowing from the Fund came from the Oil Facility and in 1976, 73 percent of the 264 million SDR allocation came from the CCFF. However by 1978 standby agreements with the tougher conditionality again dominated flows from the Fund with 92 percent of the total net borrowings coming from credit tranches in 1977, 71 percent in 1979 and 76 percent in 1980 (Stein 2004: 105).

Figure 3-1 World Share of Trade by Region (Percent)



Source: IMF, Regional Economic Outlook: SSA 2007

This was a pattern which foreshadowed developments after 1981 when structural adjustment became the dominant policy agenda and standby agreements became the prerequisite for all foreign assistance in Africa. While developing countries in the 1970s took an increasing portion of the total IMF resources to nearly 59 percent (from 46 percent in the 70s), no other region's share grew as rapidly. Overall credit allocation to Africa increased nearly 10 times from the 1960s (in nominal terms) rising to 11.3 percent of the total to all countries (Ferguson 1988: 112).

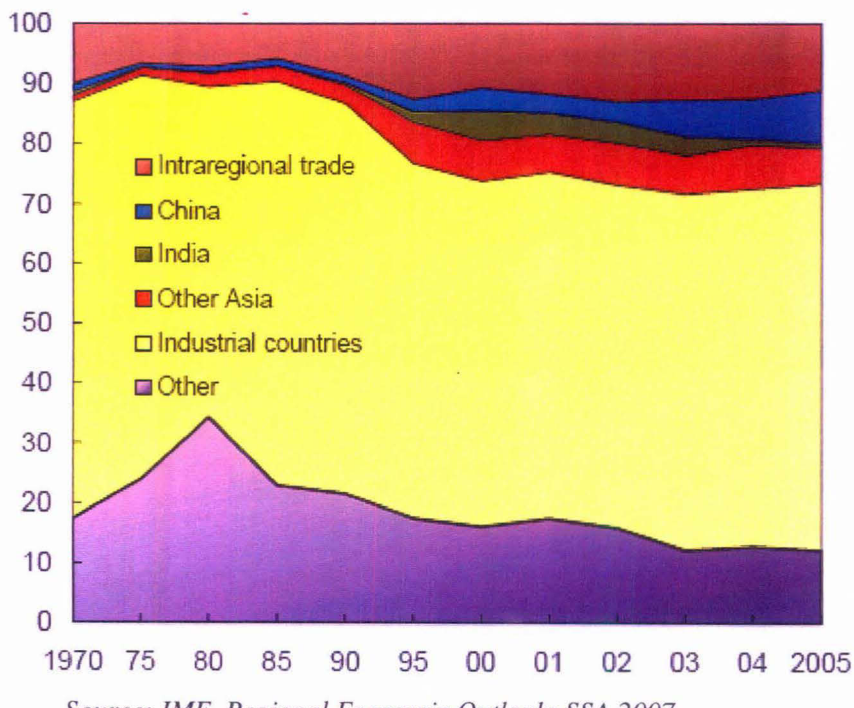
Table 3.1 Exports Composition of Products (in Percent) Sub-Saharan Countries

	1985	1990	1995	2000	2004	2005
Food & beverage	18.3	16.1	20.1	12.5	11.3	9.1
Raw materials	12.3	14.9	14.5	10.2	9.2	7.9
Fuels	50.0	41.8	35.9	46.9	47.6	54.9
Manufactures & chemicals	18.6	26.0	28.6	29.6	31.0	26.4

Source: IMF, Regional Economic Outlook: SSA 2007.

After 1980, the IMF jumped into Africa with enormous enthusiasm. In a time when the Fund's role in the global system was being questioned, the IMF was trying to redefine itself in the wake of widespread criticisms in the press. Between 1980 and 1983, the net flow of Fund loans to sub-Saharan African countries reached $4.3 billion with new lending tools (Stein 2004: 56). Much of this new adjustment lending was in the form of sectoral adjustment loans (SECALs). With many African countries having difficulty implementing economy-wide adjustment programs, SECALs with their narrower focus, were introduced in 1982, to deal with burgeoning balance of payments problems. While six African countries received SALs and SECALs between 1980 and 1983, an additional 21 countries were added to the list between1984 and 1989 (Kapur et al. 1997: 66). The introduction of SECALs was only the beginning of a long history of "innovations" in the design or delivery of adjustment in the face of the protracted decline in Africa without fundamentally altering the commitment to the core program.

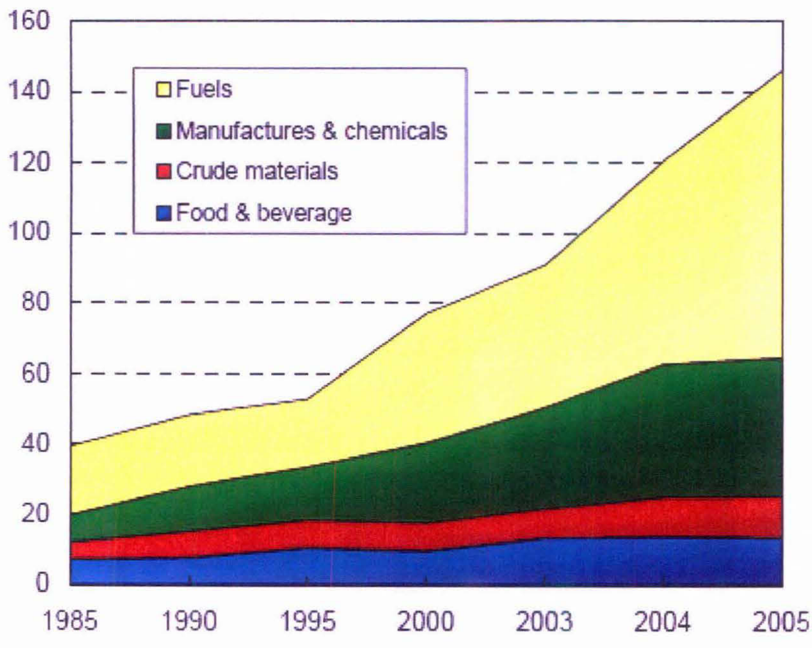
Figure 3-2 Exports Destinations



Source: IMF, Regional Economic Outlook: SSA 2007

The structural adjustment programmes of the IMF are based on a conventional approach, with desire generally comparable in all the countries: they give larger credence to growth objectives than to income distribution objectives. This growth first tactic is suggestive of the neoclassical growth models of 1950s and 1960s. The key purpose is to realign by and large domestic spending and production patterns in order to bring the economies back to a course of stable and unprejudiced growth. The strategy procedures attached as conditions to proper stabilization and structural adjustment loans intended at overcoming short- term imbalances. These programmes aimed at institutional reform, including public enterprises. They gave preference to private sector enterprises over those in the public sector and used market determined prices to influence production and consumption patterns (Adepoju 1993: 132).

Figure 3-3 Commodities Export (Values in US$ Billions)



Source: IMF, Regional Economic Outlook: SSA 2007.

In recent years, there have been different economic trends in many African countries— an increase in real growth rates, a decline in inflation, and a narrowing of financial imbalances. After declining in the 1980s and the early 1990s, average real per capita income in sub-Saharan Africa grew at an annual rate of 1.5 percent during the second half of the 1990s. In the latter period, growth performance improved in 37 of the 44 countries in Sub-Saharan Africa (Basu 2001: 20). The region's fiscal and external current account deficits have shown declining trends. Moreover, the continent's two largest economies— South Africa and Nigeria— are today, more than ever before, well positioned for stronger economic performance. There is, therefore, encouraging evidence that economic reform efforts in Africa are beginning to show positive results.

While the recent improvements in economic performance are heartening, there is no doubt that much more remains to be done. Poverty remains widespread. Private investment is subdued. The economies of Sub-Saharan Africa have remained largely undiversified and, hence, highly vulnerable to changes in external conditions. In several cases, an already fragile economic situation has been weakened severely by ongoing conflicts. It is also well known that the external debt burden is heavy in some low-income countries in the region.

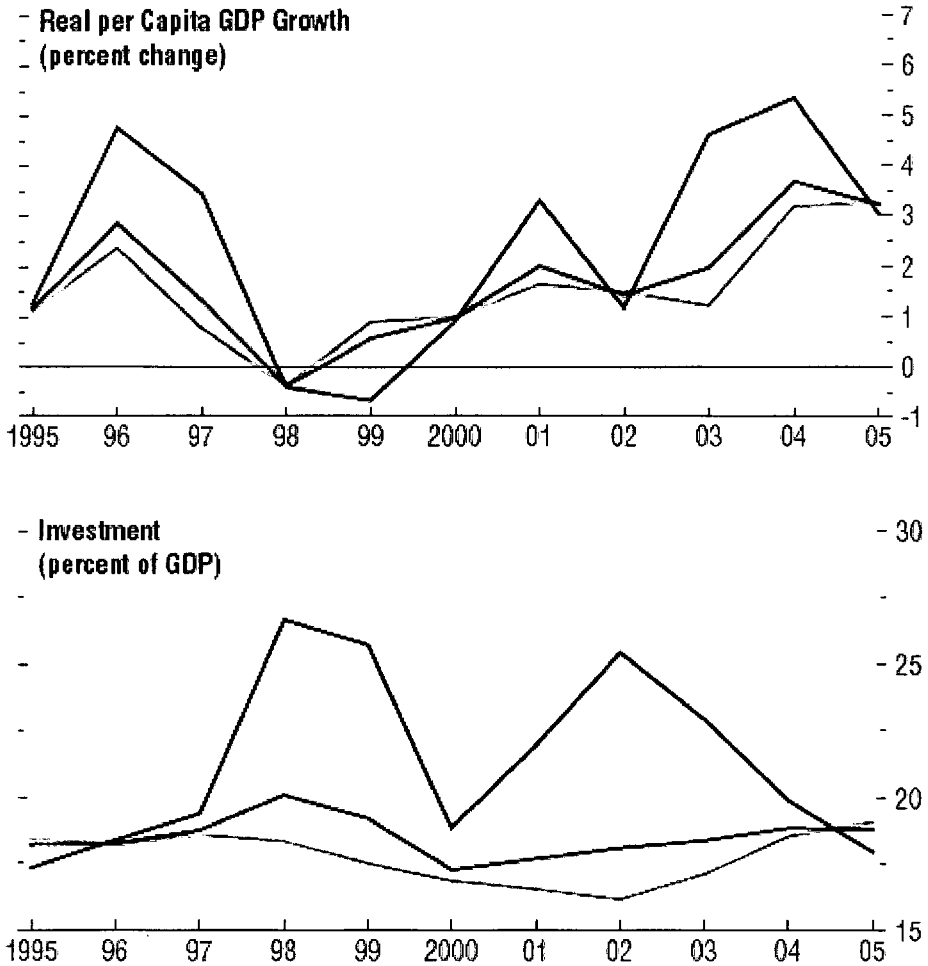
Under SAPs, Africa's external debt has increased by more than 500 percent since 1980 to $333 billion today (Ismi 2004: 143). SAPs have transferred $229 billion in debt payments from Sub-Saharan Africa to the West since 1980. This is four times the region's 1980 debt. In the past decade alone, African countries have paid their debt three times over yet they are three times as indebted as ten years ago. Of Sub-Saharan Africa's 44 countries, 33 are designated heavily indebted poor countries by the World Bank and IMF. Africa, the world's poorest region, pays the richest countries $15 billion every year in debt servicing. This is more than the continent gets in aid, new loans or investment. In the absence of debt payments, severely indebted African countries could have saved the lives of 21 million people and given 90 million girls and women access to basic education by the year 2000.

In 1996, the International Monetary Fund and the World Bank launched HIPC to address debt levels that had become unsustainable. This was particularly relevant for sub-Saharan Africa as of the 42 HIPCs, 34 were African. The fiscal resources were sorely needed; as SSA's total debt stock had reached $300 billion, and debt service as a percentage of government budget allocations were extraordinary (e.g. 36 percent in Cameroon, 46 percent in Tanzania, and 40 percent in Zambia) (UNDP 2000: 34). It became obvious that the HIPC programme was in need of refinement. The programme moved at a slow pace, with the average time between Decision and Completion Point was three years. Also, it became obvious that even countries that were receiving debt relief under the HIPC were spending much more on debt servicing than on public health and education. Finally, the vulnerability factors were not linked to poverty reduction, as they did not address the vital issues of export diversification, income distribution, and risk. After being reviewed, the second phase of HIPC was launched in 1999. The debt sustainability target was lowered to 150%. Even after satisfying this requirement, there are other prerequisites like having undertaken a Poverty Reduction Strategy and implemented it for one year and also implementing a PRGF programme. Ultimately, reaching Completion Point is tied to a fulfillment of a set of reforms. Eighteen of the 22 post-Completion Point countries were African (Afrodad 2007: 14).

It should be noted that the IMF was not a major donor. Lending by the IMF declined from $32 billion in 2001 to an average of $5 billion in 2006. Outstanding credit to the IMF which was at a $100 billion in 2003 has declined to just under $18 billion as of March 2007 (World Bank 2007: 44). The low share of IMF lending of total Official Development Assistance notwithstanding, the influence of the IMF on, not only its own clients, but also bilateral lending relationships is wide-reaching. This dependence implies a skew in the power relationships between countries, considering two-thirds of ODA is bilateral. This signalling relationship underscores its influence beyond its lending capacity and places it as the head office for development financing; a nod from the IMF opens doors from all corners.

The growth performance of the region as a whole was weak during 1960-2002, with an average growth rate of 3.3 percent. This barely exceeds the average population growth rate of about 3 percent and is less than half of what is needed to achieve the MDG goal of halving the fraction of the population living below $1 per day.. Only four countries (Botswana, Equatorial Guinea, The Gambia, and Mauritius) registered an average growth rate of at least 5 percent during 1960-2002. This number had tripled in the period 1997-2002, with 12 countries registering an average growth of at least 5 percent. Turning to the subgroups of countries, middle-income countries (MICs) experienced the fastest real GDP growth (an annual average of 4.8 percent), and the countries mired in conflicts had the weakest growth performance (an annual average of 2.4 percent), especially during the subperiod 1991-96.. Most country subgroups, with the exception of countries whose programs were adjudged to be off track, experienced a boost in growth during 1997-2002 (compared with 1991-96).. The performance of countries whose programs with the IMF were adjudged to be on track improved during 1997-2002 (compared with 1991-96): real GDP growth in this group of countries increased significantly to an annual average of 4.1 percent during 1997-2002 from 1.5 percent during 1991-96). Following a pattern seen in low-income countries in the world, the share of the tertiary sector (which includes public and private services) was the largest in total value added.. The share of the secondary sector in total value added was the lowest in all subgroups, with the exception of the middle-income and oil-producing countries.. Over time, the share of the tertiary sector remained broadly stable, but the share of the primary sector declined and that of the secondary sector rose, particularly driven by the group of oil-producing and middle-income countries. The tertiary sector contributed the most to real GDP growth (about 50 percent) in sub-Saharan Africa as a group; this was also the case for the group of all low income countries (LICs) in the world. The same pattern was observed in the subgroups of countries, with the exception of the oil-producing countries, where the contribution of the secondary sector (which includes the oil sector) was the largest (Ismi 2004: 154).

Figure 3-4 Real per Capita GDP Growth and Investment



***: Oil Producing Countries
***: SSA
***: Non Oil Producing Countries
Source: IMF, Regional Economic Outlook: SSA 2007.

On average, growth performance in sub-Saharan Africa deteriorated almost continuously from the 1960s to the mid-1990s. This was accompanied by the significant decline in the contribution of agriculture in the 1970s (compared with the 1960s) and the decline in the contribution of the tertiary sector in the 1980s and 1990s. Real GDP growth was highly correlated with both the secondary sector's contribution to growth (correlation of 0.9) and the tertiary sector's contribution to growth (correlation of 0.8), whereas the correlation with the primary sector's contribution was weak. The average investment-GDP ratio in sub-Saharan Africa during 1960-2002 (at about 21 percent) was lower than the group of LICs in the world (about 25 percent). Moreover, the annual average domestic saving-GDP ratio in sub-Saharan Africa at about 11½ percent during 1960-2000 was weaker than the annual average of LICs (about 17 percent). The performance of domestic saving in sub-Saharan Africa deteriorated significantly over time for virtually all the country groups. In the group of LICs in the world, the domestic saving-GDP ratio actually increased over time (Tahari et al 2004: 176).

The IMF has sought to improve its resource transfer, and to reduce the cost of its credits to low-income countries, through the SAF/ESAF mechanism [The Enhanced Structural Adjustment Facility and the Structural Adjustment Facility are concessional IMF facilities for assisting eligible members that are undertaking economic reform programs to strengthen their balance of payments and improve their growth prospects. ESAF and SAF loans carry an interest rate of 0.5 percent, and are repayable over 10 years, with a 5 1/2-year grace period (IMF 2008)]. Yet most African countries have not yet availed themselves of the ESAF opportunity. As of December 31, 1990, only 11 nations in Sub-Saharan Africa had gained access to ESAF resources (more generally, only SDR 1.4 billion of the SDR 4.6 billion of total available ESAF resources had been committed, The sticking point has been the onus of conditionality: a large number of countries that had SAF agreements have simply been unwilling to enter into stringent three-year commitments. When the ESAF was initiated, Fund management emphasized that the resources would only be used to support strong adjustment programs (Feinberg, 1991). The dilemma with the ESAF mechanism as it stands arises from its two, conflicting objectives: to catalyze tough adjustment programs and to transfer concessional resources to low-income nations. Mistry (1988) has suggested to ease access to ESAF resources is to establish a two-tier conditionality system. The lower-tier program might focus on macroeconomic management and a narrower range of structural reforms, and yield a lower percentage of quotas than would be available under a full-fledged comprehensive ESAF reform package.

Feinberg (1991: 42) has emphasized that the political conditionality being written into the charter of the European Bank for Reconstruction and Development opened a Pandora's Box that the Bretton Woods agencies were not able to escape. The commitments in the EBRD charter to the fundamental principles of multi-party democracy, the rule of law, (and) respect for human rights were spilled over to the other multilateral lending institutions. Moreover, the increasing pressures for political change within African societies, and the distress among donors with the quality of governance in many African countries, forced the Bretton Woods agencies to consider more directly the political milieu in which they operate. Historically, several factors inhibited donors from pressing political conditionality in Sub-Saharan Africa. East-West geopolitical rivalries often took precedence over the facts of human rights and domestic governance. Underlying ethnic tensions in many African countries lent credence to the argument that only a strong, single-party state could preserve national unity and prevent tribal bloodshed and economic efficiency was associated with centralized political power.

Sub-Sahara Africa alone is incurring trade losses of US$ 60 billion per year due to deteriorating terms of trade which are largely fostered by creditor prescriptions. The assumption of the current debt relief initiatives is that the Debtor countries are solely responsible for the crisis. While accepting part of the responsibility, due to lack of proper debt management, corruption and other shortcomings, the Debtors point to the large impact of the external factors that have been identified to have contributed to the debt crisis including the existence of a global trade regime in which the Debtor countries continue to suffer declines in terms of trade and ongoing lack of global market access; natural disasters and factors introduced by inappropriate policy advice by IMF as well as the push factors in lending. In some SSA countries, for example Zambia, more than 40 percent of government budget is spent in debt servicing as compared to only 15 percent spent on health and education combined, compromising human development. In terms of economic justice, equity and rights the responsibility of both the Creditor and Debtor governments is crucial to resolving the poor debt conditions.

Another problem is that the evaluation procedures of the Bretton Woods Institutions confuse the terms of the adjustment agreements with their implementation. For example, the structural adjustment program in Zimbabwe is counted as poverty-focused, partly on the grounds that it provided for the restoration of current expenditures on health and education as a condition for releasing funds. In the event, even though expenditure under both budget heads fell sharply under the adjustment program, funds were released. Up to 1992, Ghana had been called the star pupil of the Bretton Woods Institutions, with an adjustment program that was proclaimed by the IMF and the World Bank as perhaps the most successful in Africa but in 1992 Ghana consummated its transition to democracy and, in the process, the government gave in to pressures to grant enormous pay increases to civil servants and the military. In late 1992, in advance of the elections, an 80% across the board pay increase, backdated, was announced. As a result, the budgetary conditionality in the World Bank's then current Structural Adjustment Credit was violated, and the impending tranche release was suspended. Through its own tranche, and through co-financing tied to it, the World Bank found itself holding up as much as one eighth of the annual import bill of the country (Kanbur 2000: 33).

Statistics on SSA make grave reading. World Bank figures show that over the 1990s there were improvements globally in reducing the number living on less than $1 a day, yet the situation in Africa deteriorated (See Tables Below). An estimated 49 percent of the population lives in extreme poverty. Even if projected growth remains on track globally – a questionable assumption – the figure in extreme poverty in SSA is expected to rise to 404 million by 2015 (World Bank 2003: 6).

Table 3.2: Levels of Poverty

	Million people < $1 a day			Share of people on < $1 a day (%)		
	1990	*1999*	*2015*	*1990*	*1999*	*2015*
SS Africa	241	315	404	47.4	49.0	46.0
Global total	1,292	1,169	809	29.6	23.2	13.3
Excluding China	917	945	735	28.5	25.0	15.7

Source: World Bank 2003.

Implications of IMF Lending and Debt Problem of SSA

Africa's external debt burden increased significantly between 1970 and 1999. From just over $11 billion in 1970, Africa had accumulated over $120 billion of external debt in the midst of the external shocks of the early 1980s. Total external debt then worsened significantly during the period of structural adjustment in the 1980s and early 1990s, reaching a peak of about $340 billion in 1995, the year immediately preceding the launch of the original HIPC. Overall, Africa's external debt averaged $39 billion during the 1970s, before ballooning to just over $317 billion in the late 1990s. Over the same period, total debt service paid by the continent increased from about $3.5 billion to a peak of $26 billion (UNCTAD 2004: 14). A major observation is that the continent's worsening external debt crisis was underscored by the ever-increasing levels of arrears, an indicator of the inability to service debt obligations on time. In 1995, for example, accumulated arrears on principal repayments had exceeded $41 billion, with countries in Sub-Saharan Africa (SSA) owing almost all of this and arrears representing one fifth of the total debt stock of SSA. Secondly, there was a significant increase in the multilateral and official debt components of total outstanding debt during the 1980s and 1990s.

A significant factor in the debt crisis of African countries was the two oil price shocks of 1973-1974 and 1979-1980, the latter leading to deterioration in the external environment that lasted until 1982. The rise in oil prices not only had an adverse impact on the trade balance of oil-importing countries, but also caused fiscal crises in most of these countries, thereby undermining domestic investment. The second shock occurred at a most inauspicious period, as it coincided with sharp rises in real interest rates. Within the context of the global recession of 1981-1982, which depressed demand for developing countries' exports, and deteriorating terms of trade, the balance of payments crisis that afflicted developing countries was exacerbated, not only for oil importers but also for oil exporters. However, based on the assumption that the global recession would be short-lived and that prices of non-fuel commodities would recover quickly, most of these countries resorted to external borrowing to finance fiscal and external imbalances (Adepoju 1993: 176).

SSA's economic performance registered some marked improvements in 2003. Despite the fragile recovery of the world economy, initial estimates point to an increase of the growth rate of real GDP in SSA from 2.9 percent in 2002 to 3.7 percent in 2003, with some 18 countries achieving growth rates in excess of 5 percent (compared to only 10 in 2002), and 16 others registering rates between 3 and 5 percent. Inflation has largely stabilized, with some 40 countries achieving single-digit levels. The fiscal deficit also declined from 3.4 percent in 2002 to 3.0 percent in 2003, while the external current account improved, with a positive trade balance for the fourth year in a row (IMF 2007).

Several factors account for the SSA's improved performance: the strengthening of the domestic macroeconomic environment; the recovery of non-fuel commodity prices; favorable weather conditions; and debt relief under the enhanced HIPC Initiative. It is gratifying to note that most countries have continued to follow prudent fiscal and monetary policies, resulting in improved macroeconomic stability. In addition, important structural reforms continued to be implemented, and the strengthening of regulatory frameworks. A large number of countries also enhanced their Poverty Reduction Strategy Papers to serve as a comprehensive framework to reduce poverty, promote economic growth, and coordinate donor support. A favorable external environment supported the domestic reform efforts. The price of oil continued to rise and the price of non-oil commodities increased significantly. In addition, the trend decline in the debt burden of SSA economies has continued, with the ratio of debt to GDP declining to 47.6 percent, and the ratio of debt service to exports also falling to 15.2 percent. While developments in the SSA economy were on the whole positive in 2003, the difficulties that some countries continued to face should not be overlooked. Although a number of long-standing conflicts, such as those in the Great Lakes Region, came to an end and the prospects for ending others are promising, many of the affected countries have yet to launch effective reconstruction and rehabilitation programs. Others continue to face political instability and civil strife, resulting in a contraction of their economies. Clearly, the international community will need to bolster its efforts to find peaceful solutions for countries in conflict and to provide the much-needed assistance to post- conflict countries (Kanbur 2000: 165).

While the improvement in the performance of the SSA economy in 2003 is most welcome, it needs to be stressed that on current trends, growth is still inadequate in most countries, particularly with respect to achieving the Millennium Development Goals (MDGs). The only exceptions are South Africa and the countries of North Africa. Other countries therefore need to redouble their efforts and put in place the required policies and structures to accelerate and sustain growth rates in the order of 6-8 percent. A few countries, such as Mozambique, have demonstrated the possibility of doing so. And for its part, the international donor community needs to continue to provide the requisite assistance in terms of increasing Official Development Assistance flows, reducing external debt to sustainable levels, and improving market access for SSA's exports. Indeed, SSA'S future economic performance will in large part be determined by its trade relations with the rest of the world. SSA has fared quite poorly in its international trade performance over the last two decades. Its share in world exports has declined to 2 percent in 2002, compared to 3 percent in 1990, and to 6 percent in 1980. To reverse this trend, SSA countries need to pursue a development strategy that is export-oriented while at the same time seeking to transform their production and exports base. Such a strategy must necessarily start with strengthening SSA's comparative advantage in traditional exports, where the continent has lost market share in primary commodities such as coffee, cocoa and cotton (Stein: 2004: 149).

In addition, enhanced diversification programs should start by strengthening the linkages between agriculture and the industrial sector, as the comparative advantage of many SSA countries may initially lie in the processing of agricultural goods. Further, SSA countries should exploit the potential that exists in the export of services, including the substantial comparative advantage that they enjoy in tourism. These sectors should be given high priority while SSA countries seek to build up their comparative advantage in manufacturing. Successful promotion of exports and diversification will require that domestic policies do not discriminate against exporters and that the physical and marketing infrastructure required to help African producers become more competitive in the global market be developed. In most countries, there is an urgent need for investments to reduce key constraints such as inefficient transportation and marketing systems. Export diversification also requires the scaling-up of local capacity with the support of foreign firms. Partnerships with foreign capital create access to the needed technologies as well as access to managerial and marketing know-how. In addition, SSA countries will continue to require technical assistance from their development partners in such critical areas as capacity development in exports promotion, industrial research, information management, and quality control.

In SSA, the debt question is intimately tied up with aid and conditionality. In what follows figures will be for the HIPCs as a whole (Claessens et.al., 1997: 252). For these countries, the median debt to exports ratio was 340 percent. Of the total debt, private creditors were owed 17 percent, official bilateral creditors 64 percent, and multilaterals 19 percent. This is very different from the Latin American debt crisis of the 1980s, where the bulk of the debt owed was to private creditors. Another big difference is that, unlike their Latin American counterparts in the 1980s, in the 1990s the HIPCs continued to receive large positive net transfers from the international donor/creditor community. The median net transfers to HIPCs were about 11 percent of GDP on average over the 1990-94 periods. Notice that this is net, in other words, it is calculated after debt service payments. Compare this to the average net transfers to creditors by Mexico of 5 percent of GDP over the 1984-88 periods. What exactly is the debt problem in Africa? Many commentators have highlighted the debt service outflows: Between 1990 and 1993, the region transferred $13.4 bn annually to its external creditors. This is four times as much as governments in the region spent of health services. In fact, it is more than their combined spending on health and education. It is also substantially in excess of the $9 bn a year which UNICEF estimates as the total cost of meeting basic human needs for health, nutrition, education, and family planning (Oxfam, 1995: 144).

Let us start by noting that, in fact, Africa receives large net inflows, even after allowing for debt servicing. Of course, if the debt servicing was not there, and the inflows did not decrease, then net aid to Sub- Saharan Africa would increase, quite substantially. This raises several issues. First, the assumption is that an increase in net aid inflows would be good for SSA. This is questionable, given the established difficulties of enforcing conditionality, and the argument in this paper that the volume of aid is a key determinant of the current dis-functionality of the aid system. Second, the assumption is that the net inflows will remain unchanged when debt servicing ends. This is highly unlikely, since in fact, as argued above and in Claessens et.al. (1997: 157) much of the aid inflows are motivated simply to ensure normal relations with regular debt servicing. Of course, as has been argued by many analysts, African debt is a charade--it will not be repaid and, as the large net inflows to SSA demonstrate, it is not in fact being repaid. For their own reasons, to do with the institutional importance of avoiding certain types of balance sheet adjustments, the official donors, who are also the main creditors, are putting money in so that the debt can be serviced. It is important, however, to bring the appropriate perspective on the real nature of the debt problem. The debt problem is not, a problem of too low a level of aid to Africa--if anything; the levels of aid are too high relative to the current institutional structures for absorbing them. Rather, the debt problem is threefold. First, the stock of debt does indeed act as a drag on private investment and on the political economy of policy reform, since it can be argued that the costs of reform will be borne by the local population but the benefits will accrue to foreign creditors. Second, the round of constant debt rescheduling, and the negotiations to keep gross inflows sufficient to fund debt servicing outflows, takes up the time, energy and political capital of key policy makers and technocrats. Third, and relatedly, large outflows and matching large inflows lead to the institution of aid dependence in the polity, in the sense this was defined in the last section.

Deep debt relief is needed and appropriate for SSA, and support this independently of what might happen to net flows after debt relief. In fact, donor agencies will be better able to stand firm on conditionality (Burnside-Dollar, 1997: 54) since worries on debt servicing have been one of the reasons for the failure to enforce conditionality. Thus worries on the "moral hazard" consequences of debt relief are misplaced—the moral hazard is as much on the donor as on the recipient side. The World Bank/IMF HIPC debt relief inititative (Boote et. al., 1997: 34) was probably the best that could have been achieved politically at the time, given the concerns of major donor countries on moral hazard and on the possibilities of demands for debt relief from countries outside the HIPC net. But it was clearly too timid an attempt at resolving one of the key determinants of Sub- Saharan African aid dependence, and its current implementation leaves much to be desired (Kanbur 2000: 10).

The IMF misdiagnosed the problem in SSA economies in the 1980s, making inappropriate forecasts for recovery and applying the wrong policy conditions. Far from facilitating necessary adjustments and reform, the conditionality pushed by the IMF drove countries in to a vicious circle of stagnation and poverty. What was needed for effective structural adjustment was a boost in low domestic savings so that countries could fund the investment's necessary for structural change and growth. It required increased imports of raw materials and spare parts, which necessitated additional foreign exchange. Instead, a narrow set of structural adjustment targets were imposed by the IMF in the context of increasingly onerous debt payments schedules and a vicious circle was created. A recent report on chronic poverty, with reference to urban poverty in Ethiopia, states that improved macroeconomic management in the mid -1990s did not result in reduction in poverty, on the contrary the urban household welfare declined during this period (Kanbur 2000: 70).

If the IMF had wanted to prioritize the poor in the 1980s, they needed to build in to stabilization and structural adjustment programmes protections of various core aspects of the lives and opportunities of the poor: access to productive assets such as land; the quality and availability of extension services which increased the returns of poor from the assets they did have; employment opportunities; access to education and health services; and supplementary resources, such as food subsidies (UNICEF 1986: 4). In respect of privatization the IMF was so keen to use the sale of assets to improve the budget deficit that it had paid little heed to the way privatization was undertaken and the consequent social implications. Woods (2006: 189) stated that the IMF was too quick to assume an end to external aid to countries and this hindered the prospects for growth in the stabilization and post-stabilization phase.

Concluding Remarks

This Chapter has presented a somewhat pessimistic diagnosis of the current nexus of aid, conditionality and debt in Sub- Saharan Africa. It can, however, be argued that this diagnosis reflects a disastrous past rather than emerging realities. With the cold war gone, and the democratic transition beginning in SSA, surely the parameters are now different? The purposive reform, undertaken proactively, is what is needed to make the most of the favorable trends. Based on the diagnosis presented here, four related factors will be central in any reform process. First, it will be important for there to be more of an arms length relationship between donors (IMF, World Bank) and recipients (SSA)-the current system's dysfunctionality arises in part from the fact that donors are involved too intrusively in a country, in the name of aid effectiveness. Second, and relatedly, donors (and recipients) will have to develop a new toughness in standing firm on conditionalities--the incentive systems in donor agencies and recipient countries will have to be modified. Third, deep debt relief will be an important step on the road to achieving greater toughness and more of an arms length relationship on aid flows. Fourth and finally, if the above reforms lead to a fall off in the volume of aid, or even require such a fall off, then so be it--donors and recipients should obsess less about the volume of aid and more about the consequences of aid dependence (Kanbur 2000: 72).

Low income countries such as those of Sub Sahara Africa lack capital and countries that lack capital use foreign savings to increase domestic investment and growth. As income increases, domestic savings will increase and enable the borrowing country to repay the external debt. During the 1970s, Sub Sahara Africa borrowed heavily but these loans did not promote sustainable growth of output and exports. The recession of the early 1980s, the increase in world interest rates and the collapse of Africa's terms of trade ignited the debt crisis. For more than two decades, Sub Sahara African countries have faced a debt crisis that has retarded growth, undermined poverty reduction and degraded the environment.

Although the HIPC program is more ambitious than previous debt reduction programs in promising more and faster debt relief for more countries, it is not grounded analytically in a realistic conception of the amount of debt reduction needed for most countries to achieve a sustainable path of growth and poverty reduction. African countries are in poverty traps with levels of income too low to cover basic needs. Debt servicing reduces the ability of governments to provide basic social services and build the necessary physical infrastructure to promote economic growth (Sachs 2004: 192). Africa needs complete debt cancellation and the provision of grants to support an investment program to promote growth and poverty eradication.

The experience of SSA highlights weaknesses within the IMF. Those weaknesses can not all attributed to political pressure from outside. In SSA countries seem to have been poorly served by the research and landing practices by the IMF. The IMF was very slow to seize and shape the issue of debt relief in respect to sums owed to themselves, and most poignantly of all even after decades of engagement its main borrowers in SSA seem no closer to the promise of economic growth, and are still highly indebted to the IMF.

Chapter IV
Conclusion

The International Monetary Fund has long been a well-known institutional site of disagreement between high income and low income countries over how national preferences are to be aggregated for purposes of arriving at and implementing collective decisions. At the core of this disagreement is a fundamental problem that is both theoretical and practical: how best to reconcile the principle of sovereign equality with the fact of wide power asymmetries among members. More powerful states who contribute the bulk of the Fund resources have successfully insisted that the Fund's weighted voting system reflect their position in the international power hierarchy, while their less powerful counterparts who use those resources call for votes to be distributed in closer accordance with the juridical equality of states, rich and poor, large and small.

The IMF's Articles of Agreement contain no specific provision that addresses the question of representation especially of low income countries at the central level. Although there have been quota revisions and increment in voting power from time to time but only financial contributions were taken into account while other real factors such as geography, population, social structure and nature of problems of low income countries were largely ignored. The top management representation of the IMF is difficult to transform. It requires an improvement in the voice and participation of developing countries. There is a fundamental dilemma facing developing countries in respect of their participation in the IMF. They have majority in the membership, but simultaneously incapability, because of their underdeveloped status and their inability to contribute in a major way to the financial resources of the IMF.

The Fund has also come in for criticism on other grounds. Truman (2006: 10) argues that the Fund has fallen in its job assignment as arbitrator for exchange rate system. The Bretton Woods conference elaborated a post World War II international monetary system based on fixed – exchange rates that sought to avoid the beggar-thy-neighbour policies that had undermined the interwar global economy. With the move to generalized floating exchange rates in the mid 1970s, the Fund's responsibility was transformed. The IMF was obliged under the new article IV of its revised character to exercise firm surveillance over member's exchange rate policies in particular each member's allegation to avoid manipulating exchange rates to secure unfair competitive advantages to prevent effective balance of payments advantages. Truman puts forward a presumptive case that a number of Asian countries, China in particular have been manipulating their exchange rates to prevent global balance of payment adjustment.

The central purpose of the Fund has been to promote the achievement of maximum growth consistent with minimizing imbalances that threaten to provoke economic or financial crisis. The problem, nevertheless, is that the IMF lacks a framework within which to do so. John Williamson (2004: 12) proposes the use of reference exchange rates as an appropriate framework. The framework would be based upon an assessment of what real effective exchange rates could be consistent with maximum non-inflationary domestic growth and equilibrium in the external accounts of such member of the IMF.

Another potential role for the IMF in improving the international monetary system is the active encouragement of growth. Abdelal (2006: 37) notes that the IMF carries a heavy burden with many of its members because of members' perceptions of the IMF's pro-liberalization posture in the past. He argues that the Fund in its own interest should continue its current cautious posture. He recommends that even in the future any proposal to amend the articles be shelved until there is a fuller professional consensus about all aspects of capital accounts liberalization. Former Managing Director Camdessus (2005: 10) recommended that a bold initiative should be taken to address the level of certain countries exchange rates as well as longer term issues of the flexibility of their exchange rate regimes. Stiglitz (2002: 28) also argues that the premier monetary and financial institution International Monetary Fund believes that when markets function normally demand must equal supply; unemployment is a symptom of interference in the free workings of market however it is not acceptable in all conditions and in all countries. He argues that the noticeable dilemma with the IMF's thinking is that it implies no poor country can ever spend money on anything it gets aid for.

Another main critical aspect of the IMF is the effectiveness of conditionality. The IMF used the same sets of conditionality (such as tight fiscal policy , devaluation ,increase in interest rates etc.) to improve the position of balance of payment in various nations however it created a lot of problems even some times it increased the nature of problem. Another main shortcoming of conditionalities is that when a country asks the loan from IMF than it is already in the huge pressure and conditionality increases the pressure and because of increased pressure countries can not perform well. Conditionality is direct attack on countries sovereignty (Buira, 2003: 64). It is also questionable that can externally imposed conditions become compatible with the internal policies of country. The basic question relating to conditionality is whether one can have an alternative model of balance of payments adjustment particularly when disturbances arise from within the economy due to natural calamities or, when disturbances originate from without, beyond the control of the afflicted economy. It is possible to conceive of a situation where a debtor country in such situations, is helped through rescheduling of its loan and advancement of more money (Pelaez and Peleaz, 2005: 104).

As well as, some other issues must be confronted in this debate over the role of the Fund in the low income countries. The first is the conditionality sought by the Fund when lending to these countries. The second concerns the scope of the Fund's analysis and involvement in the economic, financial, and social issues confronting these countries. There is a demand that the Fund should both limit the structural conditions it attaches to its financing and concentrate them in the core areas of its expertise, e.g., fiscal and budgetary systems, financial markets, etc. and leave to others, especially the World Bank, areas such as civil service reform, privatization and the like. The second issue regarding the Fund's work in low income countries concerns the breadth of the Fund's analytic focus and collaboration with other agencies. Much greater clarity and better guidance to staff are needed from both the executive board and from management on these issues. What information, and in what detail, is needed to do macroeconomic analysis properly and comprehensively in developing countries? What should be the time horizon of the Fund's analysis and projections? Has the Fund a role to play in mobilizing or coordinating aid and assessing its overall impact on the economy? (Boorman, 2008: 4). On the other hand Frenkel (2007: 7) has asserted that the official doctrine of the IMF does not seem to recognize the virtues of this new context for developing countries in terms of financial solidity and growth. For example, the institution continues officially recommending macroeconomic policies based on pure floating and inflation targeting. Pure floating means appreciated exchange rates and ceasing to accumulate reserves, consequently reducing the current account surplus and the rate of growth. At the same time, and contrary to official doctrine, the institution's research department recently published several works covering a broad historical and geographical spectrum that show the correlation between growth, net income on current account and maintaining depreciated exchange rates.

This study raises several questions: about how IMF programmes hurts growth, about the lack of motivations of the IMF to promote developmental programmes and policies. This study also questions the process of IMF reforms. The assessment of study indicates that change is required. This study suggests two directions of reform. First, in the approach and commitments made by the IMF for the development and as well as in the policy and programmes; second, reform in the governance.

This is really very shocking that the loudest calls for reforming the Fund is coming from the rich countries. Borrowers have long put up with slight vote and even fewer powers in the Fund. Their calls for alteration have long been dismissed as unusual demand. A number of countries have designated with their own base. Others stay behind prepared to accept to use the organization as a final option. By contrast rich countries are at this moment uniting. They want the IMF facilitate to globalize economics and administer crises, to open up new markets, and to propose a lowest amount of universal harmonization. But they at this instant countenance a hard option. Either they will probably have to compensate further for the organization. Or they will have to create it extra striking to low income countries.

As far as the question of Sub-Saharan Africa is concern enhanced diversification programs should start by strengthening the linkages between agriculture and the industrial sector, as the comparative advantage of many Sub-Saharan African countries may initially lie in the processing of agricultural goods. For this purpose the IMF must take initiative. On the other hand Sub-Saharan African countries should exploit the potential that exists in the export of services, including the substantial comparative advantage that they enjoy in tourism. These sectors should be given high priority while Sub-Saharan African countries seek to build up their comparative advantage in manufacturing. Successful promotion of exports and diversification will require that domestic policies do not discriminate against exporters and that the physical and marketing infrastructure required to help African producers become more competitive in the global market be developed. In most countries, there is an urgent need for investments to reduce key constraints such as inefficient transportation and marketing systems. Export diversification also requires the scaling-up of local capacity with the support of foreign firms. Partnerships with foreign capital create access to the needed technologies as well as access to managerial and marketing know-how. The emphasis of IMF was on export increament but its credit was always limited for the diversification of products. Until unless it will not increase its credit to the continent for the agriculture and for the production of other primary goods an unstable structure of growth will always exist there (George 1988: 87).

Policy Reforms

The course of action to tackle poverty in low income countries must deal with the rural aspect, especially the importance of the agriculture segment that supplies the source of revenue for the majority of rural people. Morrissey and Verschoor in Paloni and Zanardi (2006: 283) have given the example of Uganda which can be considered as model. In Uganda, government commenced the poverty action fund and strategy in 1998 to encourage contributors that resources for pro poor spending, especially those released through debt relief, would be examined and responsible. The action plan and framework included area development and distribution, increasing the efficiency of expenditure, and taking a standard period approach to combine aid resources in to the financial plan. The results were impressive. The headcount index fell from 56 percent nationally in 1992 to 35 percent in 1999.

The work of preparing plan for economic development must be carried out mainly by the local experts and policy makers. In the past, strategy creation did not pay sufficient consideration to the relation between industrial segment of economy and other segments and in particular with agriculture. This strategy flaw is habitually not pointed out by the IMF. In SSA there is a serious problem of the nonappearance of relationship to agriculture, education, health, transport and other segments with industrial segment. Another problem is the low capacity of the IMF to develop country specific strategies which are steady with a long term development strategy. Generally in the packages of IMF short term effects have tended to surpass longer term concerns, for instance, concerns for environmental problems, desertification, searching for substitute source of energy, development of domestic resources. These are extremely crucial long term subjects which should be integrated in the strategy of IMF.

One significant modification of the development policy of the IMF is that it should be embedded in national development organizations. This implies links to medium term costs scheduling and yearly financial plan. Establishing ad hoc poverty strategy units, even within existing agencies and departments, divide the development and poverty reduction strategy from the policy making in general. Macro economic course of action of government should be derivative from the government's poverty reduction strategy, not the reverse. Rather than a supervision instrument as the IMF tends to view development approaches, these should be political programme, discussed and questioned in public and certified by the suitable delegate organizations.

It should be noted that if the IMF is concerned with poverty reduction and growth, then protection of the incomes of labor and the underprivileged may become a stipulation of IMF programmes. IMF has argued continuously that it wants to stay out of internal politics of the countries and it has reserved itself from the topic of distribution. But when

IMF demands that budget deficits be cut, changes in interest rates and support to liberalization and privatization, it has entered in to the domestic politics. So why in the issue of development it is reluctant? It is the moment for the IMF to take an appropriate position on the topic of development. The IMF must craft a genuine dedication to promote development.

Meltzer Commission which was created by the U.S. congress in 1998 has stated in its recommendations that IMF should cancel completely its claim against all heavily indebted poor countries that implement an effective economic development strategy. But the commission also recommended that IMF should cease lending to countries for long term development assistance as in Sub- Saharan Africa (IFIAC, 2000: 7). This recommendation is objectionable and completely refutable. How can one predict growth and stability without long term development assistance and structural transformation? Even "*Our dream is a world without poverty*" slogan must be expanded to the IMF from World Bank.

To function more effectively, the IMF must be transformed from capital-intensive lender to source of technical assistance, donor of regional and universal public goods, and catalyst of an increased flow of private sector resources to developing countries. Its goal should be to reduce poverty, its effort should be to encourage countries to attract productive investment, and its responsibility should be to remain accountable for their performances. The focal point of its economic efforts should be on the poorest countries of the world that lack money market access. The IMF with the joint initiative of World Bank should develop into the primary source of aid for the African continent until the African Development Bank is prepared to take complete responsibility. The Bretton Woods institutions should focus on the construction of universal public goods such as management of stifling disease and AIDS, coherent fortification of environmental resources, tropical climate agricultural programmes, improvement of organization performance, and inter country infrastructure.

Together with loans, the IMF is at the core of international research and the manufacture of practical suggestions on different economic issues. By grouping research resources, all countries set to grow. The IMF's research has paying attention greatly on trade liberalization and the profit of market opportunities. The IMF can organize its research, data and expertise to support members in identifying vulnerabilities and opportunities they look regionally and worldwide, and recommend useful ranges of solutions to those problems. This responsibility of the IMF could be more important in the poorest, least resourced countries of the world.

A supplementary function the IMF could play is coordination in worldwide development aid which is disgracefully split, duplicative, and in a mess with a huge figure of donors tripping over each other's bilateral rather than multilateral efforts. For example, World Bank and International Development Association offer concessional funding through a harmonized aid system. This decreases operation expenses and improves information flow which can be easily accessed by donors.

IMF has formed one-way communication organism with a lot of its borrowers. Its Resident Representatives are seen as an exceptional way superior to convey policies and programmes. But there is revisit communication used by administration in Washington DC to pay attention and to find out from the countryside. Roaming across three continents one is directly struck by the gaps unraveling what the Fund provides and what its consumers want. In Sub-Saharan Africa, policy-makers wanted the IMF to realize how economic programme systems work in their economies but the Fund has never considered this. Local data are crucial for the Fund to be practical to its borrowers. It is a far cry from the pattern discussed above and from intellectual economics where soaring theory is honored over practical effort. IMF requires tangible encouragement for staff to study about explicit economies. It should arrange personnel to one country for much longer periods of time, to influence their knowledge and practice and also enhanced to tie employees hard work with conclusion in that country. It should set up customs to pass on this knowledge and practice to other economic organizations dropping the load they put on already-overstretched policy-makers who at present have to waste time explaining the specificities of the economies. A diverse category of study is preferred by borrowers, which is realistic case-study rather than ultra-modern conjecture.

Reform in Governance

Among those advocating IMF reform today, there is close to general harmony that a revamp of Fund governance must be a pinnacle concern. This focal point reflects the common response that the Fund is in front of a somber disaster of legitimacy that can only be addressed by creating governance structures that are more open to the voices of those disaffected with the institution and more thoughtful of shifting political and economic realities.

In theory, IMF represents 185 countries that collectively fund and run the organization. In practice a small number of economically powerful countries run the organization. Management selection tilts the responsibility of an organization. Generally Staff of the Fund reports to the Administrative authorities of United States and Western Europe. This is far away from the reality that workforce and administration earnings are typically paid by the borrowers. Changing management selection is an essential way to reestablish the accountability of IMF. What organization requires is a Board that can mediate opposing interests in a manner that is representative, transparent, and accountable. Sufficient representation does not essentially mean a UN-style organization of one-country one-vote that would provide the board heavy. The present board configuration presents a structure for representing all members yet being small enough to be practicable. Insufficiency is a motivation for the most influential vote holders to discuss with and construct coalitions across a broad range of members when they can control an easy majority of voting power among themselves. Yet this could be simply achieved by requiring a majority of countries as well as voting power when the Board makes decisions.

One of the most significant ways to improve the IMF's legitimacy would be to revise its course of action of selecting the Managing Director. Fund reformers call for altering the selection procedure to include candidates selected on good points and elections, without nationality limitations. Camdessus (2005: 11) also called on the United States and Europe to abstain from their privileges in choosing Fund management; as a substitute, Camdessus recommended opening the management selection practice to permit a competitive method. He argued this would improve decision-making and external authenticity. Kahler (2006: 92) proposed a method of reserved competition where minimum qualifications are settled ahead, search teams set up a skilled long-list of potential candidates, and national governments narrow down the long-list to a veto-proof proposal short-list.

In King's (2006: 14) analysis, the Fund would be enhanced if served by a non-resident panel as Keynes had initially suggested, that would assemble occasionally possibly six or eight times per year, and which could be made up of further senior officials from constituent governments. This restructuring would facilitate the panel to emphasize its ability more positively on large subjects in ways that ensured that the Fund's planned direction better reflected the preferences of its member governments. A non-resident panel would of course make available the Fund's Managing Director and staff with better liberty in their routine operations. This improved staff liberty could influence alleged IMF's legitimacy in different ways. Untied of straight political errors of usual interaction, the IMF staff's aptitude to present more calm guidance on key issues facing member governments, and the global economy as a whole, could be enhanced.

A further plan has come from Camdessus (2005: 11). In its place of changing the authorization of the Executive Board in King's method, Camdessus calls for the formation of a fresh IMF Council that could presume the duty for planned decision-making and assemble possibly four to five times per year. He further added that the formation of such a council was in fact certified at the time of the Jamaica amendment of the IMF Articles of Agreement in 1976. Camdessus proposes that the Council whose membership he left not mentioned could substitute the International Monetary and Financial Committee which is currently only a consultative and has become more of a communiqué-writing body than a innovative decision-making forum.

Kenen in Helleiner and Momani (2007: 30) has suggested that the Executive Board could be changed into a 16 member Managing Board of specialists not on behalf of governments but fairly designated by the Managing Director and operational with no biased voting. Woods and Lombardi (2006: 480) recommended that reallocating Executive Board seats may not be essential if enhancement could be made to the constituency structure which grouped votes and shares into one elected Executive Director. They scrutinize that constituency members who do not hold a chair at the Executive Board are underrepresented with less voice and voting power in the institution, because chairs do not cast split votes and often reflect the wills of the ED's own principals. This leaves the majority of IMF members represented within constituencies with fruitless ways of getting heard on the board. Woods and Lombardi propose enhancing the capabilities of seats and improving Board responsibility to its constituency members.

The final conclusion is that there is a need for a complete visualization of the job to be played by the IMF in the development of emerging economies and low income countries. The fundamentals of needed reform are so strongly inter-linked that a slowly approach that deals with each part individually will not create a logical plan. For example, the quota debate needs to be better informed by accord on the possible financing role of the Fund and the resources and instruments the Fund will need to accomplish that role. The governance issues confronting the Fund need to deal not only with the voting power of members, resolute basically by basic votes and quotas, but also with all the other factors that decide the successful representation of member countries in the organization. These include the size and composition of the executive board, the excellence and seniority of executive directors appointed or elected to represent member countries, the way in which the different international agenda setting bodies, especially the G-8 (Group of eight industrialized and advanced countries), G-20 (Group of twenty developing countries) deal with the broader representation in the Fund and the way in which decisions are taken in the organization.

Those discussed above and other issues such as the processes for selecting the managing director and deputy managing directors, as well as the significant governance practices to hold administration and the board accountable for the way in which the organization performs, will all affect the extent to which the Fund is acknowledged as genuine by the members. Issues of suitable employee intensity and the organization of workforce will have to be up to date by decisions taken regarding the responsibility the Fund is expected to play in surveillance, in financing, in assisting the low income countries, and in its position as a hub of macroeconomic and financial policy skill and proficiency, including as a contributor of technical assistance. These considerations, in turn, will decide the staffing and budgetary necessities of the organization and will provide as key to any debate of the Fund's revenue mechanism. This will be a complex task to pull all these elements together into a coherent vision for the institution. Yet it will be trickier to construct extensive harmony between the members on such an idea. At the moment, such extensive harmony does not subsist and the nonexistence of harmony is declining the legitimacy and professional excellency of the organization in question. The world desires a successful IMF.

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