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# Negotiating with the IMF: The Case of Somalia and Jamaica

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## Abstract

IMF was founded in 1944 after World War II, following the devastations of the European economies during the war to help countries with balance of payment (BOP) difficulties, amongst other objectives. At the time, most of the developing economies were under the colonial domination of developed European nations. These developing economies had no inputs into the policy directions of the IMF nor were they factored into the emerging economic world order. Independence brought them into the world economy and membership of IMF, but they continued to feed the needs and tastes of the metropole. Being producers of raw materials without a diversified economy, developing economies operated at the mercy of the merchants of the developed economies in pricing their raw commodities, which fluctuates in the international markets and sometime crashes. Their BOP problem forced them to approach the IMF for short-term loans. Loans advanced to developing economies are laced with poison pills which worsen their economies instead of improving them and leave them worse off than they started before the loans. There is need for competing sources of loans, such as sovereign foreign funds, which the developing economies can access without the draconian prescriptions of the IMF, World Bank and the "Washington Consensus". This could ameliorate the challenges for loan seekers if the competitor would consider the circumstances and peculiar needs of the developing economies in granting those loans. Using the dependency theory, the study found that developing economies and particularly Somalia and Jamaica in this case found themselves in a mirage of economic development with loans from IMF. It explored both countries' economies, being producers of raw materials and net importers of manufactured or refined goods from developed nations which help force them into BOP difficulties. It also examined the IMF conditions to granting the loans and the actions these respective governments undertook to comply with the IMF.

**Keywords**

Negotiation, IMF, Economies, Loans, BOP, International Markets, Commodities, Sovereign Funds

## 1. Introduction

The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) were formed at the Bretton Woods conference agreement of 1944 following the devastations of the European economies during World War II. These financial institutions became operational in 1945.

The IMF has three critical missions: 1) furthering international monetary cooperation, 2) encouraging the expansion of trade and economic growth, and 3) discouraging policies that would harm prosperity. To fulfill these missions, IMF member countries work collaboratively with each other and with other international bodies. Consequently, the IMF was mandated to promote global macroeconomic and financial stability and provide policy advice and capacity development support to help countries build and maintain strong economies. Although the IMF does not lend for specific projects like many development banks, it provides financial support to countries hit by crises to create breathing room as they implement policies that restore economic stability and growth. It also provides precautionary financing to help prevent crises. IMF lending is continuously refined to meet countries' changing needs (https://www.imf.org/en/About/Factsheets).

The IMF was also mandated to maintain exchange rate stability, adjust imbalances of payment for member countries, and act as lender to countries having short-term balance of payment crisis. In the intervening years 1944-1971, IMF supported and maintained the multi-currency parity rate based on the fixed price of the dollar relative to gold which was pegged at $35 to an ounce of gold. Other major currencies were also linked to the dollar at a fixed rate. Between the 1950s-1960s, IMF lent short-term loans to mainly advanced economies to facilitate moderate exchange adjustments (Reinhart & Trebesch, 2015). The developed economies like France, Spain, United States, Portugal, United Kingdom, etc., borrowed from the IMF in its early years. Later, it extended its facilities to developing market economies of Asia, Africa, Latin America, and emerging economies in Eastern Europe (Ahmed & Sukar, 2018). After World War II, the dollar emerged as the key currency and a major reserve asset.

Dollars held by the official institutions other than US Federal Reserves were freely converted into gold. This system became unsustainable because the supply of the world liquidity depended on a growing US trade deficit. Conversely, a large balance-of-payment deficit, relative to the supply of gold, would undermine confidence in the reserved currency and could trigger a crisis. Accordingly,

> The pressure on the US dollar mounted, as the US trade balance worsened in the 1960s because of the Vietnam War, huge international aid program, and

> other commitments. When some European central banks began to convert US dollars into gold, US gold reserve at Fort Knox began to fall at an alarming rate. President Nixon declared a moratorium on the convertibility of the dollar into gold on August 15, 1971. This ended the era of fixed exchange rate, (Ahmed & Sukar, 2018: p. 61).

Without a fixed exchange rate, the IMF had to adjust its role in the management of foreign exchange rates. But the banking crisis of the 1980s forced the IMF to recalibrate its policies. Up until the 1990s, the IMF financial policies were driven by the Washington Consensus, a doctrinaire view of economic development based on structural adjustment through market liberalization and privatization without considering the unique conditions of the developing economies. It simply lumped all of them into a one-size-fit-all basket which apparently caused more damage than good to those economies. Besides, it imposed unrealistic conditions to developing economies seeking loans from the financial institution.

After the turmoil in the foreign exchange market and following the collapse of the Brendon Woods system of 1971, it became clear in 1973 that the status quo could not be maintained. By the time Jamaica had reached its loan agreement with IMF in 1973, the institution had started an era of floating exchange rates. Exchange rates of the developed countries were being determined by free market forces of demand and supply, while those of the developing economies were linked to major convertible currencies of the West. The crude oil shock of 1973-74 brought in a new set of dynamics on the demand and supply mechanism in the foreign exchange market, which was challenging to the institution. Oil importing countries needed help for the high cost of imported crude oil, while oil exporting countries had a sudden bonanza of reserves from crude oil price hikes. Much of the oil revenues found their way into European financial institutions as petrodollars (Broughton, 2009). This was followed by the international banking crisis in the early 1980s.

Consequently, "the IMF had to reinvent itself to meet the new challenges and recalibrate its policies to deal with the crisis that unfolded with default on sovereign debt by some Latin American countries" (Ahmed & Sukar, 2018: pp. 61-62). This shifted their focus from exchange rate management issues and balance-of-payment problems to sovereign debt default and international banking issues. The IMF then expanded its scope to structural reform and financial stabilization management of member countries. From the 1980s, the IMF replaced short term loans with long-term loans on projects that would span over decades with precautionary credit lines which it provided to prequalified countries. Based on the lead of the World Bank and the Washington Consensus, the financial institution's loans became tied to structural reforms, which they made conditional on the implementation of structural adjustments and successful reforms in the borrower nation's economy. They followed it up with instituting close surveillance, constant monitoring, tying their loans to financial reform measures and capital account liberalizations measures as part of the new policy (Joyce & Nor, 2008).

The purpose of this paper is to show the disparity in the IMF lending policies and repayment methods for developing countries whose major produce are raw materials as against those of developed economies. This paper explains the negotiations with the IMF in Somalia and Jamaica, the history of the IMF, World Bank and IMF missions and practices when lending to the West and other developed nations. This study examines the dependency theory which in the international system can be used to measure the expanding global inequalities. Dependency is a situation in which the economy of certain countries is conditioned by the development and expansion of another to which the former is subjected (Dos Santos, 1970: p. 231). The economies here are those of Somalia and Jamaica being subjected to the developed countries through the instrumentalities of the IMF. Some scholars have questioned the categorization of North-South divide as ethnocentric which has not taken into consideration the socioeconomic and political backwardness measured against Western values and standards, so questioned if such categorization is useful in global inequalities (Farney, 2016: p. 2). However, Randal argues that:

> While some countries of the Global South, mostly those of East Asia, have been able to use the feature that the countries of the periphery have in common dependency on the core countries, the benefits of globalization for their own economic growth and adapt their economic policies accordingly, for other countries globalization has meant rather the imposition of neoliberal structural adjustment regimes by debt regulating International Financial Institutions. This proves that just because some countries seem to be breaking out of the dependency trap does not mean that a trap never existed or that dependence can be fully eliminated. (Randal, 2004: p. 50)

What intrigued this researcher is that while the IMF had loaned to countries in Western Europe shortly after the World War II to rejig their economies, which aim was achieved, such hopes have remained elusive to countries of the south especially to those whose products are mainly of raw materials. Could these disparities have been mostly in the less developed economies, teams' arts of negotiations? This article takes a close examination of the processes and the missing links between both the success of the West and failure of the developing countries, if any.

One of the developing countries that faced these measures from the IMF was Somalia. Somalia's economy depends on agriculture and livestock, the United Nations has classified the country as least developed with a gross domestic product of $4.918 billion as at 2020 (UN Factsheet, p. 1). Somali agriculture is based on livestock raising outpacing crop farming. Its economy can be divided into subsectors of nomadic pastoralism which focuses on raising goats, sheep, camels, and castles (livestock). Other subsectors include subsistence agriculture, raisin, rice, cotton sorghum, maize, sesame, cowpeas, vegetables, grapefruits, mangoes, and papayas. Somalia economy was agriculture based and its major exchange commodity was cattle. The other country was Jamaica that faced the IMF measures. This paper therefore compared the situation in both countries by reviewing the

negotiations between them and the IMF.

## 2. Somalia's Negotiation with IMF, 1981-1985

Between 1974-75, Somalia suffered from severe drought which created a sharp drop in its agricultural production and destroyed huge parts of its livestock herd. This was followed by the 1977-78 hostilities of the Ogaden war that caused huge influx of refugees into the country and loss of grazing lands. These incidences led to a sharp widening of budgetary deficits that were ameliorated only by bank borrowing. The domestic borrowings exerted pressure on prices and the balance of payments so much that economic growth stopped in 1979. The effect was that rate of inflation more than doubled between 1978 and 1979 which plunged their balance of payment to US$99 million in 1979 (Nsouli & Zulu, 1985: p. 17). To enable Somalia get up on its inflationary pressures, it initiated stabilization measures with the IMF with a one-year stand-by adjustment program equivalent to SDR (Special Drawing Rights) $11.5 million which refers to an international type of reserve currency created by the IMF in 1969. By 1979 Somalia's external payment arrears had reached US$45 million. Again, the country was forced into another adjustment program from 1981-83. This effort was aimed at stimulating domestic production, slowing inflation, and reaching a sustainable external sector position in the medium term. This was followed by two stand-by arrangements with the IMF for two and half years focused on supply and demand-oriented policies which they often modified. To prevent the over valuation of the Somali shilling, the IMF advised that they float the shilling and peg it to SDR member countries' currencies of USA, China, Britain, Euro, and Japan. Following the program prices of major agricultural products were raised between 17% - 50%, prices of products such as banana were raised 158%, and encouraged to discontinue the monopoly and cushioning by government marketing agencies of these products, leave the commodities to market forces and passing on their high prices caused by the adjustments to consumers. In 1981, the Somali government devalued its currency by 50% for most foreign exchange transactions, liberalized private sector imports, and introduced external accounts denominated in US dollars. In 1982, it again devalued its currency by another 17% on imports and 34% on imports in terms of foreign currency. In that year 1982, the Somali shilling was pegged to the SDR rather than the US dollar in the hope that that represented the pattern of Somali transactions in international transactions, (Nsouli & Zulu, 1985: p. 18). Fortunately, an unexpected inflow of private capital began which was financed by workers' remittances through the parallel market. This generated 25% premium in foreign currency from Somali nationals into the country, to prevent a gradual overvaluation of the Somali shilling because of this unexpected inflow of foreign currency, was the reason the shilling was pegged to the SDR, adjusted in 1983 for relative rates of inflation between Somalia and the five SDR countries. In 1983, it was followed by deregulation and the sale off public enterprises to the private sector.

After the Ogaden war, Somalia lost the Soviet Union's military assistance

program for switching its alliance to the United States. During the war, President Siad Barre focused more on the politics of the Ogaden war than on his economic goals of socialism. Because of this focus on the war the economy was hurt, the poor economy was exacerbated by the drought that ravaged the land. These factors accelerated its existing debts crisis and led to the collapse of the small industries (Metz, 1993). By 1980, Somalia was owing 4 billion shillings in debt, US $110 million to the Soviet Union, China, US $872, Saudi Arabia, US $81.9 million, Abu Dhabi, US $67.0 million, Arab Fund for Economic and Social Development US $34.7 million, Kuwait, US $27.1, and smaller amounts to other countries (Metz, 1993). With the failure of their experiment of scientific socialism, President Siad Barre lost his alliance with the Soviet Union, so he relied on the IMF and its structural adjustment programs.

Following its international debt profile Somalia lost control of its macroeconomic structure. Because of the economic crisis which resulted from the war and the drought, the Somali government entered into three stand-by agreements with the IMF. Because of its heavy debt burden, the economy was unable to attract foreign capital by 1980, so Somalia rescheduled international funds earlier made available to it. These facilities came with a provision that international civil servants would have to monitor all its expenditures. In February 1980, Somalia signed a microeconomic policy agreement with the IMF, which was not implemented. The government again in July 1981, July 1982 and January 1984 signed standby agreements with IMF. Following these agreements, she prepared medium-term recoveries consisting of public investment programs for 1984-86 and a phased program of public reforms. At the instance of the International Development Association (IDA) the government scaled down its planned construction of the Baardheere Dam which the IDA advised against.

Because of what seemed to be an IMF success story with Somalia, the technocrats who guided the nation's economic policy and the IMF staff had started the idea of extended arrangement discussions in 1983. An extended arrangement still required exchange of financial support for policy change, which policy would emphasize increased production through external or international liberalization. These policies were more difficult to implement than the IMF's earlier standby, it made a multi-year commitment rather than one-year commitment to the adjustment program. Following the history of the Extended Fund Facility (EFF) program since its inception in 1974 and the history of the industrialized nations, the (EFF) programs are narrower than the usual IMF standbys.

Somalia's finance minister, Mr. Abdillahi Ahmad Addow and the central bank governor Mr. Mohamud Jama Ahmed led the Somali's team. Both the Somali team and the IMF team believed that economic crisis provided opportunities to make sweeping reforms. Though Somali's economy had recovered from the Ogaden war and the drought, it was again hit with an unexpected but severe setback when its chief market Saudi Arabia in 1983 imposed a ban on cattle importation from Somalia. It was this shock that opened the eyes of the Somalis to the extreme

dependence on a single export product of livestock and on a single market. They had a stronger urge to pursue economic policies that will boost diversification.

The negotiation between IMF and the Somali teams were intense and sweeping in scope and the agreements of liberalization was very extensive. This removed most trade restrictions, abolished the last strands of price controls, more privatization of relatively small public sector and a sharp reduction in fiscal deficit. It further removed all government control over foreign exchange and instituted a market-determined exchange rate. The Extended Fund Facility EFF negotiation was a major shift in economic policy with major political implications. The provision of liberalizing the sale of foreign exchange and floating the exchange rate to be determined by market forces was indeed going to be revolutionary in Africa. The Somali team attempted to obtain approval from the World Bank for the public investment piece of the agreement, but the Bank would not support the building of Bardera Dam project which was championed by the Minister of Planning Mr. Ahmed Habib Ahmed who was an important minister in the cabinet. He therefore refused to support the agreement negotiated by the Finance Minister, Mr. Addow.

By the late 1983, Somalia was heralded as an example of an IMF success story on a continent where such stories were very few. The terms of the IMF agreements with Somalia had increasingly grown comprehensive and tough. The second stand-by required substantial devaluation of the Somali shilling which was highly unusual in Africa at the time but always part of the one-side fit all IMF prescriptions to developing countries regardless of the economic pain those prescriptions inflicted on the people and political cost to the leadership. When the third stand-by (1982-83) was agreed on, it went even deeper on emphasizing further supply-side economics with additional devaluation and the liberalization of trade restrictions and pricing policies. The government tightened financial policies in line with IMF supply side adjustment program policies, so it was able to contain the growth of aggregate demand. The 1981-83 fiscal policy was marked by austere public expenditure. This increased at an annual rate of about 42% primarily because of tax measures to expand the revenue base.

Again, in 1984 the IMF extended yet another US $183 million credit facility to run for three years, the vote for approval of the facility was at the council of Ministers because of a proposed 60% cut in the nation's military budget (Metz, 1993).

## 3. Somalia: History of Lending Commitments as of October 31, 1997

The IMF lends under concessional and non-concessional arrangements or can provide outright loans. A lending arrangement, which is like a line of credit, is approved by the IMF Executive Board to support a country's economic and financial program. The arrangement requires the member to observe specific terms and subject to periodic reviews to continue to draw upon it. An outright loan is also approved by the IMF Executive Board; however, it does not require a member to observe specific terms (IMF, 2021) (**Table 1**).

Table 1. IMF history of lending to Somalia from 1964 to 1990.

| Facility | Date of Arrangement | Expiration Date 4 | Amount Agreed | Amount Drawn | Amount Outstanding |
|---|---|---|---|---|---|
| Structural Adjustment Facility Commitment | Jun. 29, 1987 | Jun. 28, 1990 | 30,940 | 8840 | 8840 |
| Standby Arrangement | Jun. 29, 1987 | Jun. 28, 1988 | 33,150 | 5530 | 5530 |
| Standby Arrangement | Feb. 22, 1985 | Sep. 30, 1986 | 20,100 | 20,100 | 19,776 |
| Standby Arrangement | Jul. 15, 1982 | Jan. 14, 1984 | 60,000 | 60,000 | 34,777 |
| Standby Arrangement | Jul. 15, 1981 | Jul. 14, 1982 | 43,130 | 43,130 | 8094 |
| Standby Arrangement | Feb. 27, 1980 | Feb. 26, 1981 | 11,500 | 6000 | 0 |
| Standby Arrangement | Jan. 20, 1970 | Jan. 19, 1971 | 3980 | 0 | 0 |
| Standby Arrangement | Jan. 20, 1969 | Jan. 19, 1970 | 6000 | 0 | 0 |
| Standby Arrangement | Jan. 19, 1968 | Jan. 18, 1969 | 7000 | 3700 | 0 |
| Standby Arrangement | Jan. 19, 1967 | Jan. 18, 1968 | 5000 | 4000 | 0 |
| Standby Arrangement | Jan. 19, 1966 | Jan. 18, 1967 | 2800 | 0 | 0 |
| Standby Arrangement | Jan. 19, 1965 | Jan. 18, 1966 | 5600 | 5600 | 0 |
| Standby Arrangement | May 01, 1964 | Jan. 18, 1965 | 4700 | 4700 | 0 |
| | | **Total** | **233,900** | **161,600** | **77,016** |

Source: IMF, 2021. Above are standby arrangements with IMF under review with Somalia from 1964-1990.

At the final negotiating session for the Extended Fund Facility (EFF) in 1983, both the IMF and the Somali team agreed to get everyone to fall in line for the agreement with the understanding to keep the President who has been constantly briefed on all the developments to stay on board as well as his key ministers. The IMF chief of mission was to present a draft letter of intent to be signed at Washington, DC as to guarantee management's commitment to the arrangement. While the Somali President was ready to green light the program, key ministers vehemently resisted, so IMF agreed to delay the implementation of the core measures from January to the middle of February.

The arrangements which the finance minister negotiated with the IMF team in 1983 would lead to a radical revision of the foreign exchange system which was the source and instrument of political patronage and influence including means of personal enrichment by the ministers. The negotiated extended arrangement would end that policy and sharply weaken the powers of the senior ministers who had access to foreign exchange. When the deadlines passed, the IMF argued that the EFF was framed for points in time to uplift a deteriorating economic condition. Regardless of pressure from aid donor countries like the United States to implement the program, the Somali government's proposal to implement the EFF except for a few points that would gradually be phased in, was rejected by the IMF. Again, the President had made up his mind that the EFF as negotiated by the IMF and his team cannot be implemented in its current form. In a cabinet vote, the council voted 15-14 against with the finance Minister abstaining. The President's

basic objection was the dismantling of the foreign-exchange system which would have denied him and his allies the ability to effectively manipulate the intricate clan politics for his personal survival.

## 4. Negotiating with IMF: Jamaica, 1981-1988

In the 1980s, the Jamaican economy was characterized by sporadic and unsustainable growth. It had a mixed economy based on services, finance, tourism and finance, it was involved in agriculture, forestry, and fishing. Agriculture accounted for 1/6th of the Island's gross domestic product (GDP). Its major crops were sugarcane, molasses, rum, fruits, coconuts, banana and oranges. Others include squashes, coffee, allspice, cacao, tobacco, and ginger. Jamaica had mineral resources which were bauxite, Iron Ore, gypsum, marble, clays, silica sand, limestone, peat, gravel, lignite, copper, lead, zinc, phosphates and some titanium (Niemchich & Roger, 2023). Jamaica is a middle-income, oil-importing country with diverse economic development strategies during the 1970s and 1980s. For much of the 1970s, however, the overall economic performance deteriorated dramatically, as real GDP fell by an overall 21% from 1974 to 1980. This reflected adverse international developments, notably, oil price increases and there was a decline in tourism; but it also reflected the failure to adjust economic policies by the socialist government of Prime Minister Manley to external shocks (Robinson & Schimtz, 1989: p. 30). In August 1980, Hurricane Allen hit Jamaica and left it with $155 million destruction in its wake just two months before the general elections. During the 1972-1980 years of Michael Manley as Prime Minister, Jamaica and IMF had a track record of repeated negotiations, failed agreements with mixed records of implementation.

Huge IMF resources were committed into the country without tangible results while IMF programs became political football. The IMF felt they were the political targets during the Manley years, so it felt compelled to work with the successor government of the new Prime Minister Edward Seaga in 1980. By 1989 when Michael Manley was returned to power in another election, external assessors could see the period 1981-1987 with the same patterns of failed agreements, but with some policy changes and a better record from the point of view of IMF.

Mr. Seaga's rhetoric during the campaigns and his background as a technocrat gave the impressions to the IMF, World Bank and Washington to think that the-incoming Jamaican Prime Minister was a resolute ally for the reforms prescribed by IMF. They thought that the 58% electoral mandate from the Jamaican people in 1980 was instead a vote against the economic mismanagement of the Manley government, that it was a vote for policy shift, for austerity regime, or market-oriented reform programs of the IMF. In reality, Prime Minister Seaga's policy preferences did not align closely with those of the IMF. He saw the challenge in the Jamaican economy more as a structural problem than a radical market-oriented reform. To stimulate the Jamaican economy, he believed that the import compression which Manley had instituted need to be dismantled to remove

bottlenecks so they could use surplus capacity. He also believed that this would support a buoyant international economic environment and would renew the inflow of foreign investment. Most importantly, the external agencies were blindsided to the fact that Mr. Seaga's acceptability set perspective in negotiation and his win-set perspective for Jamaica was completely parallel from Manley's set of policies. Regardless of ideology and rhetoric when confronted with the kind of political resistance to the policies prescribed by the IMF, no Jamaican Prime Minister would go all out with the IMF conditionalities.

The newly elected conservative government of Mr. Seaga on the platform of Jamaica Labor Party (JLP) in 1980 sought to reverse the economic fortune of the country from the socialist programs of his predecessor by revitalizing the private sector to improve the economy with wide incentive system. He did so by attempts to diversify the economic structure and create a proper environment for private sector through the reduction of imbalances, and to shrink the public sector to strengthen the finances of his government and to manage the nation's finances properly. With his government's change of course from socialist to market-based economy, Prime Minister Seaga was warmly received by the newly elected American President, Mr. Ronald Reagan who went out of his way to reward his efforts of aligning Jamaica as a key ally and strategic partner of the United States. President Reagan invited the Prime Minister for a visit to the White House as his first foreign leader in 1981. Shortly thereafter, Mr. Seaga's borrowing spree began. And Jamaica was also awarded unprecedented levels of foreign assistance (Robinson & Schmitz, 1989: p. 31).

The 1981-1982 agreements which the IMF, International Development Association (IDA) an agency of the World Bank and United States Agency for International Development (USAID) with Jamaica were characteristically easy on the programs that involved politically difficult demands on the Jamaican government and with less negative features. It did not require any layoff of public sector workers or devaluation of Jamaican dollar. In April 1981, they had an extended arrangement which included additional finance from Compensatory Financing Facility (CFF) with the IMF. Again, the agreements were easy because the IMF, IDA (World Bank) and USAID had an optimistic forecast on which Prime Minister Seaga's conservative government based its program which was to shrink the public sector and encourage market-based reforms. Additionally, the United States government had "weakened the bargaining position of the IMF through two direct avenues: occasional direct intervention to shift IMF bargaining positions and indirectly, through a massive infusion of aid that made the IMF and World Bank lending appear "expansive" in times of the policy conditions that were attached" (Kahler, 1993: p. 385). The Somali negotiation did not get such a favorable disposition.

This period of expansion and easy agreement ended in late 1982. The bright predictions of the Mr. Seaga's government did not add up as the United States went into a very deep recession, the US dollar transfers from Jamaican expats also

dwindled considerably. The debt crises caused withdrawal of new private finance, bauxite/alumina, its major export prices and production slumped. As expected, the IMF began to impress on Mr. Seaga's government the wisdom of austerity measures. By January 1983, Prime Minister Seaga had made a change in policy course because the external imbalance piled up much more. Jamaica then moved from a dual exchange rate to a unified rate with biweekly auctions in allocating foreign exchange. In the next two years, the government's preferences of policy instruments were at odds with those of the IMF and the World Bank (IDA). Eventually and reluctantly, the Seaga government accepted the IMF one-side-fit-all approach to developing economies to devaluate the Jamaican dollar. The government tried to cushion the impacts on the urban population through an increase in subsidies of food, fuel, etc. which also increased fiscal deficit. Its choice was monetary policy to distribute the cost of adjustment away from the public sector and the organized urban population to the business sector.

From 1983-1985, the government continued the auction and the devaluation implications, but the effects of its offset made it fall out of compliance with successive IMF agreements. It finally abandoned the Extended Fund Facility (EFF) program in September 1983 and by July 1984 when it started to negotiate for a new agreement; Prime Minister Seaga was now in a weak position. At this time both the IMF and the World Bank had a stronger hand because of Jamaica's worsening financial situation. The import expansion of the 1980s had piled up on the country a mountain of debt which could not be supported. The bilateral aid which had peaked in 1981 had declined sharply since then, World Bank funding, which was strongest in 1982 also dropped precipitously, and in 1985 financial net flow from IMF to Jamaica was negative. With such a negative picture, government's continued resistance of any further devaluation would increase its debt-servicing burden. The government asked the World Bank, IMF, and the US Agency for International Development to evaluate its adjustment policies. The tripartite review "found the structural reform had to be broadened and intensified, while the pace of financial adjustment had to be stepped up" (Robinson & Schmitz, 1989: p. 31). It was based on this review that in 1987, the government entered a 15-month stand-by arrangement with the IMF and two adjustment loans with the World Bank (IDA).

In 1983, Mr. Seaga's government supported the United States invasion of Grenada in October 1983. This gave him some goodwill with Washington, so he decided to call a snap election to strengthen his hands internally. The opposition People's National Party (PNP) boycotted the election for his violation of their agreement not to call for elections until they were due. While Mr. Seaga may have succeeded with strengthening his hands internally, it weakened him with negotiating with the International Financial Institutions (IFI) and encouraged the opponents of his economic programs to seek extra-parliamentary avenues for action.

The economy continued to spiral downward between 1984 and 1985, inflation rose, national products slumped, which increased the political resistance to Mr. Seaga's economic programs. The economy worsened with the removal of food

subsidies and sharp increases in fuel price. There were widespread demonstrations which only the opposition party could control. During the spring of 1985 there was an unprecedented general strike by all unions by the Bustamane Industrial Trade Union (BITU), Jamaica Trade Union (JTU), National Workers Union (NWU), Jamaica Confederation of Trade Unions, (JCTU), etc., who earlier supported Mr. Seaga's political party. In September 1985, Jamaica again could not meet the IMF targets, and they suspended the stand-by arrangement in place, this put more pressure on the Jamaican dollar by October of that year (Table 2, Table 3).

Table 2. Chronology of IMF Arrangements with Jamaica during the 1980s.

| Date Approved | Facilities | Amount (in millions) |
|---|---|---|
| April 13, 1981 | Extended fund facility (3 years) | SDR 477.7 |
| April 13, 1981 | Compensatory financing facility | SDR 37.0 |
| August 25, 1982 | Compensation Financing facility | SDR 19.4 |
| June 22, 1984 | Stand-by (1 year) | SDR 64.0 |
| June 26, 1984 | Compensation Financing facility | SDR 72.6 |
| July 17, 1985 | Stand-by (21 months) | SDR 115.0 |
| March 2, 1987 | Stand-by (15 months) | SDR 85.0 |
| March 2, 1978 | Compensation Financing facility | SDR 40.5 |
| September 18, 1988 | Stand-by (20 months) | SDR 82.0 |

Table 3. Selected macroeconomic indicators.

| Indicators | 1978 | 1980 | 1982 | 1984 | 1986 | 1987 | Pre-1988 |
|---|---|---|---|---|---|---|---|
| | | | | (Percentage Annual Change) | | | |
| Real GDP (market prices) | 0.5 | −5.7 | 1.2 | −0.9 | 1.9 | 5.2 | 2.5 |
| Consumer prices (average) | 35.0 | 28.2 | 6.5 | 27.8 | 14.8 | 6.7 | 8.2 |
| Broad money | 18.3 | 18.0 | 23.3 | 17.0 | 28.0 | 16.0 | 37.7 |
| | | | | (Percentage of GDP) | | | |
| External current account balance | −3.3 | −6.3 | 1.2 | −13.1 | −5.1 | −3.8 | −0.8 |
| External debt outstanding | 55.8 | 70.0 | 81.8 | 135.8 | 150.2 | 138.0 | 122.9 |
| Overall public sector deficit | −13.7 | −17.8 | 15.7 | −15.1 | −5.6 | −5.4 | 13.3 |
| | | | | Memorandum items | | | |
| Real exchange rate (1980 = 100) | 96.0 | 100.0 | 110.5 | 72.9 | 68.5 | 66.7 | 68.2 |
| Terms of trade (1982 = 100) | 114.8 | 103.8 | 100.0 | 90.4 | 84.4 | 91.1 | 95.2 |
| Tourism visitors (stopover, thousands) | 381.8 | 395.3 | 467.8 | 603.4 | 663.6 | 738.8 | 648.9 |
| Bauxite (thousand tons) | 11,776 | 12,053 | 8378 | 8937 | 6953 | 7702 | 7300 |
| Debt service/Exports[2] | 14.7 | 19.3 | 32.8 | 31.5 | 47.8 | 49.4 | 46.7 |

Sources: Statistical Institute of Jamaica, Bank of Jamaica, and Staff Estimates by the World Bank and the Fund.

Prime Minister Seaga's government was under huge political pressure and had

policy fatigue. The only option left open to it in their view was confrontation with its creditors. The focus was on exchange rate; the Jamaican central bank intervened and pegged its dollar against the U.S. dollar which was a total rejection of the IMF conditions for a flexible exchange rate. In 1985 at a joint IMF-World Bank meeting, Mr. Seaga pleaded for a policy of renewed growth in developing countries which resembled the Baker plan that came out about the same time.

The strategy of the Baker plan was:

> That stronger policy efforts are needed, banks should provide multiyear new money packages, exit bonds should be guaranteed to allow voluntary debt reduction by banks, and net capital flows to the highly indebted countries should be raised $15 billion a year. That Successful emergence from the debt crisis, however, will depend primarily on sound economic policies in the debtor countries themselves. (Cline, 1989: p. 1)

Mr. Fie, the Minister of finance, also called for a tripartite "fresh look" mission of the IMF, World Bank and USAID to re-evaluate the policy recommendations that have been hoisted on his country. He succeeded with the "fresh look" committee, but when its report was presented in April 1986, it resembled those prescribed by the IMF in the last three years that had caused the Jamaican people huge economic distress. The government promptly rejected it.

Since Mr. Seaga's strategy of dividing the creditor coalition failed, he then employed the strategy of persuasion and delay. But with political pressure mounting, the government was forced to come to agreement, especially with resounding victory of the opposition at the municipal elections. The negotiations stalled on the issue of devaluation. Any program with substantive devaluation was unacceptable to the government and a program without devaluation was most unlikely to be accepted with the IMF and its dominant members. Both sides were most unlikely to agree.

A new stand-by was approved in 1987 with many of the recommendations of the fresh-look mission without requiring devaluation. This was mainly because of the shift in the international economic environment. The IMF Managing Director was stepping down at the end of 1986, he decided to clear up troublesome loose ends before his successor would takeover. The IMF also noticed the growing strength of the former Prime Minister Mr. Manley's party, the PNP, with which they had contentious negotiations in the 1970s. A very important factor was the collapse of oil prices in 1986 which strengthened Jamaica's bargains by alleviating the pressure on balance of payments and ameliorating government's fiscal position. The debts the Jamaican government owed the IFIs was now advantageous to the government in negotiating. The donors' positions became weak, so it had to disburse to avoid default on the part of Jamaica.

## 5. Analysis of the IMF Loans to Somalia and Jamaica as Developing Economies

IMF and the World Bank introduced Structural Adjustment Programs (SAP),

long-term loans to countries experiencing recurrent balance-of-payment difficulties. Unfortunately, these loans were granted based on the "Washington Consensus" which maintained that market liberalization, privatization, and fiscal responsibility are policies that would spur economic growth in developing economies. To restructure, they insisted these economies must reduce public expenditure, liberalize trade, investment, capital controls which include deregulation, and privatization of state-owned enterprises. Sadly, they attached these conditions and more to IMF loans to developing economies without due consideration of the borrower nation's individual circumstance and perspectives. Their one-size-fit-all approach created problems for the developing economies including privatization of public utility companies such as telecom, electricity, etc., without consideration of the impacts on employment. They engineered large scale privatizations without appropriate institutional frameworks to deal with the fallouts of massive layoffs by the newly created private companies who took over the public companies.

Nigeria is a good example of IMF's one-size fit all economic policy. The country had operated a mixed economy, however, the IMF engineered massive privatization of government owned companies, and the consequences have been catastrophic. Privatization has not ameliorated the weaknesses identified in the government owned companies. Just to take cite one sector of the economy, the government had set up an electric company known as Nigerian Electric Power Authority (NEPA). The company was responsible for procurement of transformers, electric poles, cables, etc., energizing the transformers and providing electricity to customers. First, the newly privatized companies laid off former NEPA staff or hired a few. The new company dropped the old company's core mission of providing electricity to all its citizens. Nigerians who live in developing neighborhoods before the era of NEPA now must pull resources together to buy their own transformers, electric poles, cables and hire electricians to install those on their streets and then have PHED to energize same at a fee to get electric power in their neighborhood and homes. Thereafter they must sign this infrastructure over to PHED as the private company's property without any reimbursement to the customers. In return they charge the customers exorbitantly in the name of estimated consumed electricity, yet most of the citizens wallow in darkness. Then they categorize the customers into bands A, B and C as they ration electricity to them, the more hours of electricity customers in each of bands get in a day, the higher the cost of their consumption. This is the practice in Port Harcourt, Nigeria, which is reminiscent of failures of adequate cushioning of the one-size fit all privatization policy in some sectors of the economy where the IMF had pressured the government to privatize. And the government had no option but to comply with privatization.

As for the countries under study, these results created immense economic and social upheavals for Somalia and Jamaica and indeed other developing countries that took the IMF loan.

The loans negotiated by Somalia and Jamaica as developing economies with

IMF were all revised, delayed or there were slippages during implementations. In 1984, the Somalian agreement was preceded by multiple stand-by arrangements, what was termed its success story in 1987 had an uneven path over two governments. The effect of the ratification of IMF standbys or extended arrangements must be seen more in the implementation phase.

Domestic interests must underline the range of win-sets prospective that the IMF and the developing economies' negotiators and the chief of government had to agree on in any negotiations with the IMF. The rent-seeking interests of the political and military elite in Somalia torpedoed any agreement that would have ended state control of foreign exchange. The acceptability-set perspective under Seaga's government was narrowed by the concern over political response or reaction to devaluation.

While the IMF win-sets were defined by their established model to lending to developing economies, behind that model was the interest of its key constituents who are the industrialized nations whose interest had been to keep developing nations perennially dependent on the developed nations. Any agreement which their constituents felt was loose in its conditions hardly ever succeeded at the IMF board under scrutiny. Only in special circumstances do powerful countries like the United States ever modify tough programs to their favored friendly countries.

The executive board of the IMF and its powerful member states would easily ratify agreements that are clear cut, but that was not the same standard it used for developing economies, so when President Siyyad Barre of Somalia decided that any agreement with IMF would require consensus from key constituents, the reaction of the financial institution was very negative to Somalia. The Jamaican Prime Minister Seaga proved that ratification could result from a new parliamentary election. Because the IMF found it difficult to understand these creative methods, it complicated their attempt to influence the process. But the ordinary citizen of any developing country seeking a loan from the IMF ought to be educated on the conditions prescribed by the IMF and should have a say before the loan is ratified. Therefore, the process which both President Siyyad Barre and Prime Minister Seaga used to ensure that the key stake holders were on board and making it an issue in an election before accepting the loans were indeed wise moves.

The role of the government in a developing economy seeking loans from IMF has been crucial to the decision-making process. In both countries examined, domestic issues were central. President Barre was more concerned with maintaining the intricate clan balance on which his political survival depended before forging ahead with the agreement. Prime Minister Seaga saw that the fragile democratic atmosphere favored building a better political coalition than going through with another economic change. In both cases, it had more to do with their political savvy and survival than their nations. In each case, the IMF strategies failed miserably because it could not dictate the process and use its technocratic alignment successfully.

The IMF assumed that economic crisis would invariably force the developing

economies to accept its prescribed conditionalities because at that point the developing economies seeking to borrow must have arrived at the point of desperation. It hoped that such desperation would force them to leap at any reformist agenda prescribed by the IMF. Though these countries had economic uncertainty and financial distress at the time, these conditions could not force Somalia and Jamaica to readily accept the IMF programs as was structured for them.

By 1986, the heavily indebted Jamaica had become a challenge to the IMF and the World Bank so that both institutions were encouraged to lend further to the country to prevent the prospect of default to protect their existing commitments. This is based on the theory of declining negotiating weapons. The other is called weighting the alternatives. This is the scenario that confronts the politician facing political risk in his/her choice of an IMF loan (Kahler, 1993). President Barre was bold to reject substantial financial assistance from the IMF for a sweeping reform program based on the political risk to him and his administration.

When a developing economy signs a loan agreement with IMF and there happens to be a favorable international economic climate shortly thereafter, the developing country's economy often improves. The point is that it is more of the bad international economic climate that forces these countries into balance-of-payment challenges and therefore into the arms of the IMF rather than the poor management of their nations' economies. The bleak international economy often leads to weak domestic economic prospects for developing countries and vice-visa. Between 1986-87, Jamaican economic prospects improved because the world economy had recovered from the depression of earlier years which gave it the leverage to improve its economy and consolidate on gains made.

In all cases, IMF imposes devaluation of currencies, privatizing public utilities, services and national businesses amongst other liberalization policies to developing countries seeking to borrow from her. Often, these liberalization policies leave the developing economies worse off than when they started with the IMF. Neither do the financial institution's policies improve the economy of the borrowing state, yet it continues to impose those policies on successive developing economies seeking to loan from it therefore, ensuring they keep coming back for more loans. And they do go back because of the paucity of alternative sources of sovereign funds to loan for a short in the arm to their economy.

It would be prudent for rich financiers to create a source of sovereign funds which can lend to cash strap developing economies as a competitor to the IMF. Such sovereign funds can be set up by a coalition of very rich individuals in each continent from which developing nations are in balance of payment difficulties. This would help moderate the draconian polities of the IMF towards these economies and improve lives in the poor countries. Developing economies can also help themselves by not depending only on the sale of raw materials on the international markets but processing their materials before selling them to benefit in the value-added-chain and earn a better price. By so doing, prices of their products would not be entirely dictated to them by the developed economies.

## 6. Conclusion

It is obvious that the IMF as a world financial institution, has not met its obligations to the developing countries. This is because hardly any nation whose economy is developing has survived and thrived under the conditions imposed on them by IMF. The financial institution functions to control and monitor the growth of developing economies, yet there have been few if any noticeable improvements in the economy of developing nations who borrow from it. When the IMF was formed in 1944, most of the developing nations were colonial colonies of the developed economies and did not participate in the particulars of the IMF's formation and the issues it should address. The economies of the colonies fed the needs and tastes of the metropole and were forcefully co-opted into the world economy. That system continued after their independence.

Because their products remained raw material based and undiversified, their prices are determined by merchants of the developed economies at the international market. The prices of raw materials oscillate and sometime crash at the international market. Somalia like other developing economies, had with a mono-product of cattle, when their major trading partner of Saudi Arabia imposed sanction on their one product, it forced Somalia into balance-of-payment difficulties. Third world economies are essentially controlled by the developed nations. Therefore, IMF conditions attached to loans given to developing countries show neo-colonization and dependency propagated by the affluent "North" against the poor south.

## Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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