PEOPLE'S DEMOCRATIC REPUBLIC OF RALANDIA

TWO CASE STUDIES

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Discussion Paper No. 114 June 1986

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Preliminary draft of the 'Ralandia Case Studies' set.
The final version will be available for classroom use September, 1986.
NOT FOR QUOTATION.

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Communications regarding this work should be made to
Center for Research on Economic Development
University of Michigan, Ann Arbor, MI 48109, U.S.A.

Discussion Paper No. 114, June 1986.
Published by the Center for Research on Economic Development,
University of Michigan, Ann Arbor, MI 48109, U.S.A.

PREFACE

The following case studies were designed to promote class discussion on economic policy in developing countries. They are problem solving cases, self-contained, and do not require any additional data.

There are three components: Ralandia (A), (B), and (C). Ralandia is a fictitious country located on the southeastern coast of Africa. Ralandia (A) gives an overview of the country, and is not in itself a case study. Ralandia (A) together with Ralandia (B) make up the case on Agricultural Policy; and Ralandia (A) together with Ralandia (C) make up the case on Macroeconomic Policy.

In approaching the cases, the reader should keep in mind the following questions: what are the problems that exist; what are the factors which affect why certain policies succeed and others fail; what is the effect of politics on economic policy; and what are the economic implications of political acts?

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RALANDIA (A)

AN OVERVIEW

Summary

Ralandia has excellent long-term prospects for economic development. A varied climate plus a verdant coastal region give it the advantage of crops as variable as maize, cotton and rice, as well as a range of fish and seafood. In the interior, extensive savannah regions offer vast potential for livestock production. Although the population is growing at an increasing rate, Ralandia has one of the lowest population densities in sub-saharan Africa. Long-term prospects, however, are threatened by the severity of declining per capita agricultural production, and a balance of payments crisis. Recent efforts at policy reform show promise of results, but there do not seem to be easy options for the Ralandian government.

In 1975 a socialist revolution dramatically ended the economic domination by British interests in their former colony and moved Ralandia into the African socialist camp, with a domestic policy founded on meeting the basic needs of its citizens and moving toward domestic equality. The main street in Ralandia's capital is named Nyerere Street, after the Tanzanian president who enormously influenced the new socialist rulers.

Production of rice, the main staple crop, has stagnated. Despite various efforts, the government has yet to implement a system which can efficiently generate a secure supply of reasonably-priced rice to consumers. Revenues from Ralandia's traditional cash crops of cloves, vanilla, sisal and coffee depend heavily on highly variable world market prices. While in the late 1970s export revenues were sufficient to finance basic imports needed to maintain growth and development, in the 1980s the decline of world prices combined with decreased output of certain export crops, has contributed to balance of payment problems. These difficulties not withstanding, the country has managed to maintain credibility in the eyes of the International Monetary Fund (IMF) and the World Bank because a gifted group of young technocrats has played a key role in macroeconomic policy-making.

However, in 1985, the Ralandian government is experiencing conflict between the imperatives of socialist ideology and the realities of both the international and the domestic economic situations. In addition, the claims of socialist policy conflict with the outlook of international organizations and financiers whose loans are not only vital for the recovery of the Ralandian economy but for the longevity of the government itself. The reforms urged by these organizations -- liberalization of producer prices, disbanding of parastatals, elimination of subsidies -- envision nothing less than the dismantling of much of the government's socialist program.

Country Background

Ralandia is a relatively large African country of slightly more than one-half million square kilometers. Its nine-hundred mile Indian Ocean coast line includes several substantial towns and two excellent ports, the capital city of Masunebi in the north, and Tofaru in the south. Ralandia is bounded on the north by the Victoria mountain range and on the west by the vast Unumumba desert. See Map A-1.

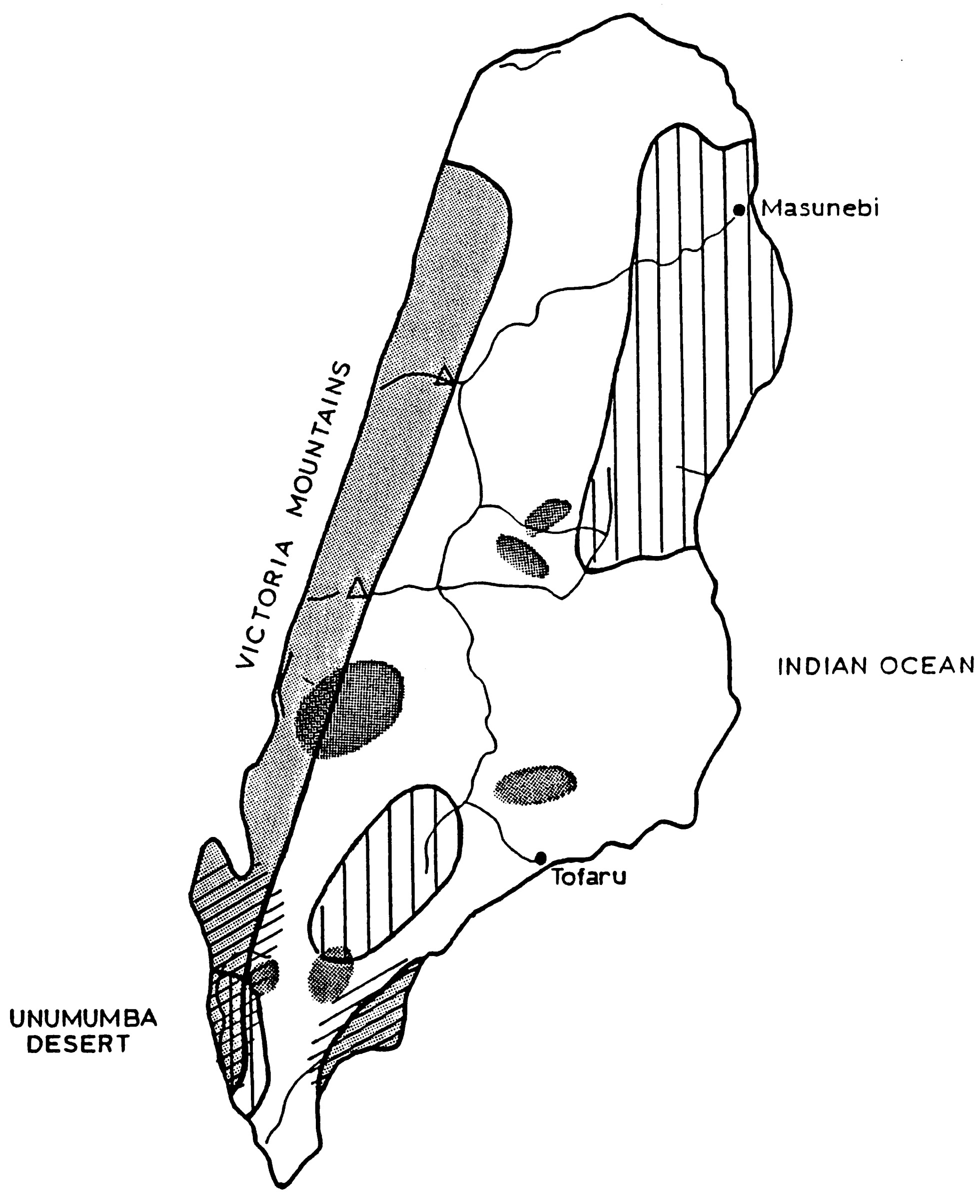
Although its current population is just under ten million people, population is growing at a rate of 2.75% per year, a rate that has accelerated from 2.0% in the early 1960s (Exhibit A-1). About 80% of Ralandia's population still lives in the rural areas, although the rate of urbanization is almost twice that of population growth in general. As a result of the socialist government's having given special attention to education, today over half of Ralandia's population is literate.

The people of Ralandia share the same basic language and customs. However, for the past century, Ralandian society has been heavily influenced by outsiders as a result of colonialism and the rise of international trade. In the twentieth century substantial communities of Europeans, Asians and Arabs have settled in Ralandia. The country has two official languages, Kiralanda, the indigenous language, and English, the language of Ralandia's colonizers.

Ralandia has an extremely varied ecology, including lowland river basin agricultural lands, highland plateaus, forests and savannahs. Although in the temperate climatic zone, Ralandia is subject to severe weather

MAP A-1

RALANDIA: AGRICULTURAL PRODUCTION



△ Hydroelectric power plant

Surplus rice producing area

— Good road year-round

////// Vanilla

Cotton

Coffee and cloves

conditions that blow in across the Indian Ocean. Generally there are two rainy seasons per year and sunshine for the rest of the time.

In addition to its rich agricultural lands, the country possesses limited but not insignificant mineral resources, including mica, chromite, and graphite. There are also small quantities of gold and precious and semi-precious stones. Ralandia has little of its own petroleum resources and is largely dependent upon imported oil. It has, however, developed a significant capacity for hydroelectric power, but transporting the power to the points of consumption is expensive.

Along with most other sub-Saharan African countries, Ralandia has experienced very difficult economic problems in the 1980s. Per capita income has declined from $350 per year in 1980 to only $250 today, making it one of the African nations hardest hit by economic problems.

Political History

The pre-colonial kingdom of Ralandia was formed in the early parts of the 19th century through the expansion of the coastal-based Molu clan to establish territorial control of the coastal regions against the former dominant power, the Omani Arabs. By the third decade of the 19th century, the Molu oligarchy had established themselves in contol of almost all of the habitable portions of what is now Ralandia. By the last quarter of the nineteenth century, South-eastern Africa was the focal point of major competition among the various European powers. The British, in a coordinated move northward from South Africa succeeded in gaining hegemony over Ralandia.

In 1897, discovering a plot by elements of the Molu aristocracy to join forces with the Germans, the British abolished the monarchy and encouraged European immigration from both Britain and South Africa to secure their rule. Like Kenya, Ralandia was never able to draw enough European settlers to make it a viable European-based colony. Nevertheless, colonial authorities did act to promote the interests of the settlers against the indigenous population. A forced labor program, and the importation of large numbers of Asian workers ensured the execution of public works and the prosperity of the European plantation sector, which was the core of the colonial economy.

In World War II Ralandian soldiers witnessed the vulnerability of British imperialism, when the British were defeated by the Japanese in Burma and committed themselves to Indian independence. As a result, returning soldiers and others formed the Ralandia African Union (RAU) in 1945. The RAU demanded that the privileges of the non-African communites in Ralandia be revoked and that the British take steps to bring independence to the country.

After the war, British authorities tried to reassert full control over the rural areas after their laxness during the war years. The RAU took advantage of the ensuing rural discontent to mobilize the rural population. In 1950, severe unrest swept through the countryside. The leaders of the RAU were imprisoned in an effort to stem the revolt, but this only added fuel to the flames. The British violently suppressed the revolt. In two years nearly 100,000 Ralandians lost their lives; numerous old scores were settled as British-armed Home Guards took on the bulk of the fighting.

In the aftermath of the revolt, the British initiated political reforms that allowed loyalists to organize while precluding any resurgence of anti-British associations. Michael Nkisane, a lawyer who had been in England during the rebellion, formed the New Ralandia Movement (NRM) with the backing of the colonial regime. The NRM was able to dominate in the first colony-wide African election, held in 1959.

Nkisane led Ralandia to self-government in 1961 on a platform that stressed the importance of the continuing foreign role in the Ralandian economy as well as the necessity of retaining close ties with the British in the post-colonial period. In February of 1963, Ralandia gained its independence. Nkisane, in an effort to retain close ties with Britain, kept Queen Elizabeth as the nominal head of state. Prime Minister Nkisane created a political regime that had many parallels with others devised in the early years of African independence, but was marked by a much weaker commitment to Africanization. However, with Britain's dramatic loss of influence in the post-colonial world, Nkisane's strategy of maintaining close ties with Britain proved problematic.

In the early years of independence Nkisane used his formidable political skills to solidify his control and establish what appeared to be a viable political system. By the early 1970s, however, Nkisane fell into weakening health and his ministers were struggling with each other over who would succeed him. At the same time, young officers in the military were chafing at the growing corruption of senior military officials appointed by the Prime Minister, unions were becoming increasingly vocal in their demands for increasing job mobility for Africans, and former RAU activists were successfully mobilizing opposition to Nkisane's neo-colonial policies. "Vsipi manaharara" (where is independence?) became the watchword of university radicals.

In the early 1970s, the Ralandian economy, which had grown at about 3% per year in the 1960s, began to stagnate. In March of 1973, riots broke out in the capital city of Masunebi over price gouging by Asian traders. A military council of reform minded senior officers headed by General Sovingo called upon Nkisane to step down. After a week-long crisis during which Nkisane attempted to enlist the active involvment of the British to protect his regime, Nkisane went into exile in Malawi.

The new government of General Sovingo immediately began to respond to the populist political pressures that had led to Nkisane's overthrow. Africanization of the civil service was sped up, certain sectors of the economy were closed to non-Ralandians, and within six months British and Asian firms were beginning to feel political pressure to appoint Africans to senior positions.

On January 1, 1974, Sovingo declared Ralandia a republic, ending all formal ties to the British crown. However, members of both the army and the intelligentsia, attacked Sovingo for moving too slowly in ridding Ralandia of all 'neo-colonial influences'. In August of 1974, Colonel Ben Kogotho overthrew Sovingo. A week later, Kogotho was assassinated by unknown assailants. A revolutionary military council took over. By the end of the year, Captain Peter Kamande, a self-proclaimed Marxist-Leninist emerged as the strongman in the military regime. Calling for a popular revolutionary socialist regime, Kamande announced general elections to seek legitimacy for his regime. He was elected President in 1975, re-elected in 1979 and again in 1983. Kamande created a leadership drawn from the various elements which had been involved in the movement to overthrow Nkisane, including military officers, trade unionists, ex-RAU leaders, intellectuals and technocrats. In addition to the ruling party, several other political parties are active, and a degree of criticism by the press is tolerated.

Governmental Structure

Between independence and 1974, Ralandia's administrative structure paralleled that of other former British colonies in Africa. Beneath the central government level were six provinces, districts, locations and sub-locations, which were basically village-level units. Power within this system flowed from the top down.

After the revolution, Ralandia attempted a less all-encompassing form of Tanzania's Ujamaa villagization scheme, not including forced relocation. This involved a proliferation of new administrative units, as the Ralandian government sought more direct influence over the evolution of events in the rural areas.

In the period since the revolution, the ministerial structure within the central government has undergone several changes. In the early years, these changes were a function of the regime's new commitment to socialism and to a more active supervisory role in the economy. In recent years, they have been a response to various efforts to resolve the economic crisis that Ralandia has faced since 1980. (Exhibit A-2.)

Structure of the Economy

The economy of Ralandia is primarily agricultural. Since independence, agriculture has made up between 30% and 40% of GDP, while contributing about 80% of the value of exports, and employing more than 80% of the population. Industry, which caters mostly to the domestic market, is largely limited to processing agricultural commodities and manufacturing import substitutes. Mining of high-grade graphite, mica, chromite and offshore petroleum contributes about 0.5% to GDP, although 4-5% of the total value of exports. Exhibit A-3 shows the composition of GDP from 1964 - 1985.

The major food crops are rice and cassava, with small quantities of a variety of other staples. The major exports are coffee, vanilla, pepper, sugar, cloves, cotton, and shrimp. Extensive grasslands are favorable to livestock production. Although conditions are favorable for the fish and forestry product sub-sectors, they are relatively underdeveloped.

Stabilization funds for cassava, vanilla, coffee, cotton and sugar, and marketing boards for pepper, groundnut, cloves, and paddy have existed since colonial times. Except for the rice marketing board, which has actively intervened in the marketing process since 1965, the government's primary role in these sectors have been aimed at stabilizing producer prices.

Compared with annual increases of close to 3% during the 1960s, agricultural production increased an average of just over 1% in the 1970s and early 1980s, against a backdrop of accelerating population growth. This ocurred despite government efforts targeted at increasing agricultural output. See Exhibit A-4.

Exports receive preferential treatment by the European Economic Community (EEC), through the Lomé Convention. Until 1972, several agricultural export crops also enjoyed preferential treatment in specific markets, including the British Commonwealth. Sugar receives preferential treatment under the sugar agreement concluded as part of the Lomé Convention, and bananas under private agreements with British companies; export quotas and prices for vanilla are determined by special agreement with U.S. and European importers. When high quality rice was exported, in the 1960s, it was sold to Commonwealth countries at prices slightly higher than world market prices. Before 1973, goods could be exported freely by the private sector, with the exception of coffee, vanilla, cloves, pepper, sugar, rice, petroleum, and petroleum products, which required exit permits issued by the appropriate stabilization fund. The structure of exports is shown in Exhibit A-5.

After independence the development of the industrial sector was encouraged by promoting foreign investment through measures such as fiscal incentives, protection against competition from imports, provision of institutional term financing, and special incentives to foreign investors sometimes including monopoly status. Although significant diversification of capacity took place in the mid-1970s, manufacturing was still dominated by food processing, textiles, and apparel industries. Industrial output lagged in the mid-1970s. In the late 1970s, spurred by low interest rates, available capital, and a list of interesting projects, the Kamande government undertook a campaign of massive state industrial investment as part of its "Race to 2000 Campaign". (Exhibit A-6.)

Like most African countries, Ralandia is highly dependent upon imports, including a wide range of consumer goods and inputs into both the industrial and agricultural sectors. In spite of particular emphasis on developing import substituting industries in the late 1960s, the structure of imports has remained remarkably constant between 1966 and the present, with the specific exception of rice. In the early 1980s rice imports increased significantly as a result of increased demand due to changing consumption habits and population growth, and of production shortfalls due to bad weather and declining productivity. In recent years, as a result of a series of stabilization measures negotiated with the IMF and of government efforts to reduce budget deficits, imports have been drastically reduced. Imports which compete directly with domestically produced industrial goods are prohibited unless domestic production is insufficient to meet local demand (e.g. matches and batteries). Import licenses are required for all imported goods. Exhibit A-7 shows the evolution of imports.

Before the revolution, the government followed a conservative policy of restraining the money supply. Between 1975 and 1980 the government expanded the money supply in conjunction with increased government spending, while maintaining a fixed exchange rate. Since 1981, the currency, the rala, has been fixed against a basket of international currencies. Exchange rates over the past 25 years are shown in Exhibit A-8, along with the rates of inflation and interest. Like most African countries, Ralandia had a passive exchange rate policy until the 1980s when, as a part of IMF stabilization measures, it undertook a series of devaluations, in an effort to improve the competitiveness of its exports and meet IMF stabilization targets:

DEVALUATIONS OF THE RALA
(1982-1984)

May 1982	January 1983	July 1983	October 1983	March 1984	June 1984
13%	5.7%	2%	9.5%	13%	3.9%

The government derives current revenue mainly from taxes, with revenue from indirect taxes more than three times that from direct taxes in most years. Direct taxes accruing to the central government include a general income tax, a tax on profits, a tax on capital, and business fees (licenses). A tax on vehicles is earmarked for urban and rural municipalities. Real estate taxes are levied for the provinces and urban municipalities. (Before 1975, receipts from the head tax and the tax on livestock accrued essentially to the provinces.) Indirect taxes include taxes on international trade, excise duties on consumption, including imports, a license tax on the sale of alcoholic beverages, and a turnover tax (which became a value-added tax in 1969). Export taxes, import duties, and revenues from the stabilization funds, together comprise the largest single source of tax revenue. Exhibit A-9 shows the structure of the central government's current revenues and expenditures.

Ralandia's macroeconomy has changed substantially since 1973 as a result of increased food subsidies and government investment in social services, industry, and agricultural infrastructure. Beginning in 1975 investment in decentralized social services led to massive capital expenditures to build schools (elementary, secondary, and universities) and primary care clinics throughout the country. In addition, to staff these facilities, the government incurred huge annual recurrent costs for salaries as well as purchasing equipment and doing routine maintenance. In the late 1970s the government undertook a long list of projects including irrigation schemes, factories for fertilizer, cement, and textiles, an oilseeds processing plant, fruit canning factories, and refrigerated slaughterhouses. To obtain the massive amount of foreign exchange required by these projects the government borrowed heavily from European commercial banks, which resulted in a substantial increase in the external debt.

Role of the Donors

Ever since independence, external donors have played a significant role in the Ralandian economy. In the period of Prime Minister Nkisane's rule, the British played the predominant role among the donors. Ralandia negotiated a series of agreements with the British which, in return for a strong British influence, provided large amounts of foreign assistance, technical support and military assistance. During this period, other significant donors were West Germany, the United States, the World Bank and the Republic of South Africa.

Ralandia's relations with the donor nations shifted dramatically in the period following the rise to power of President Kamande. While seeking to retain donor assistance from Western countries and agencies, Kamande also sought to balance these with growing support from the Eastern bloc. The Soviet Union became a major arms supplier to Ralandia and gave substantial amounts of non-military assistance, especially before 1983. The East Germans, North Koreans, and Chinese also played a significant role in Ralandia in the period following the revolution.

The third phase of Ralandia's relations with donors began in 1980 when Ralandia negotiated the first of what was to become a series of four Stand-By Agreements[1] with the International Monetary Fund. In the 1980s, Ralandia has again become closely tied into the Western donors, though now the relations with multilateral agencies are more important than those with any single bi-lateral donor. In the past few years, however, the British have reestablished a large-scale assistance program and the United States Agency for International Development (USAID) has established a country office.

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[1]IMF Stand-By Agreements provide short-term balance of payments financial support to member countries, in return for government commitments to meet agreed-upon stabilization targets.

Policy Background

British policy in Ralandia was based upon the development of an export-oriented modern agricultural sector while assuring that basic societal stability was maintained in the subsistence sector. Colonial Ralandia's modern sector was dominated by large plantations, owned by British settlers, which grew coffee, bananas, vanilla, sisal, raphia, and other exports. By the final period of colonial rule, African small-holder producers were also beginning to participate in the modern sector. Colonial taxation policies had been designed to provide workers for the European plantations. The colonial government also attempted to promote the cultivation of rice, the major staple of the Ralandian population, and attempted to maintain a low price on rice in order to promote political and social stability.

After independence, very little changed in terms of the basic economic development strategies and policies followed by the Nkisane regime. Increasing exports, predominantly by promoting the further productivity of the European plantations, was the main aim of government policy. The government also remained concerned with producing rice to feed the rapidly expanding population. Import substitution efforts by the Nkisane government were undertaken by British-owned firms operating in a highly protected environment. Public sector investment focussed on export-oriented infrastructural improvements such as roads, ports, and communication lines. The Nkisane government did not initiate fundamental structural changes in the Ralandian economy.

The period since the fall of Prime Minister Nkisane has seen a large number of policy innovations. Some of these responded to the new socialist character of the government coalition, some responded to changes in the international economy, and some responded to the perception of weaknesses in past policies. Immediately after the ouster of Nkisane, General Sovingo sought a gradual transition to a more Africanized economic policy, including increased taxes on European plantations, wage increases, limits on repatriation of profits, etc.

Under President Kamande, major policy changes ensued. In 1975, the government nationalized the vacant European plantations, began a campaign to promote cooperatives among African small-holders, and favored Ralandian private trading companies over the larger, more well established firms (run by Indian and Chinese residents), by giving them contracts to collect and distribute goods for the parastatals, and by offering fiscal incentives. Banks and major industries were all nationalized at this time.

In 1977, President Kamande declared the "Race to 2000 Campaign" which envisioned achieving a semi-industrialized socialist state by the year 2000. In an effort to promote rapid transformation of Ralandian productive capacity, the government took advantage of the dramatic increase in international liquidity generated by recycled petro-dollars by borrowing heavily from European commercial banks.

In 1980, the international recession struck the global economy. Ralandia, having undertaken massive commercial borrowing at variable rates, was faced with a huge balance of payments crisis. The government moved to bring a number of highly trained technocrats into central policy positions and at the same time approached the IMF for balance of payments support. This led to a period of severe retrenchment, cutting back on the government investment program, a series of devaluations, a lowering of government spending and lessening of the budget deficit, and curtailing hiring in the civil service.

By 1982 and 1983, the Ralandian government concluded that restoring economic health would not be possible by economic stabilization measures alone. In mid-1983, the government undertook, with technical assistance from the World Bank, a major liberalization effort in the rice sector and at the same time initiated a series of policy reforms in agriculture and export sectors. In 1984 and 1985, Ralandia participated in another Stand-By Agreement with the IMF, in which the stabilization measures begun several years earlier intensified.

EXHIBIT A-1

POPULATION

Year	TOTAL POPULATION		URBAN POPULATION	
	Population ('000)	Annual Growth Rate (%)	Population ('000)	Annual Growth Rate (%)
1960	5481	2.0	610	5.0
1965	6070	2.2	780	5.5
1970	6759	2.3	1006	4.5
1971	6914		1050	
1972	7073		1108	
1973	7236		1145	
1974	7402		1190	
1975	7569	2.5	1240	4.0
1976	7760		1290	
1977	7955		1341	
1978	8164	2.8	1400	5.0
1979	8480	2.76	1470	5.0
1980	8714	2.75	1544	5.0
1981	8953	2.75	1621	5.0
1982	9199	2.75	1702	5.0
1983	8452	2.75	1787	5.0
1984	9712	2.75	1876	5.0

LEGEND: Blanks indicate information not available.

EXHIBIT A-2

STRUCTURE OF MINISTRIES

1963	1978	1985
Justice and Constitutional Affairs	Justice	Justice
	Internal Affairs	Internal Affairs
Foreign Affairs	Foreign Affairs	Foreign Affairs
Defense	Defense	Defense
	Information	Information, Ideology & Cooperativization
	Ideology & Cooperativization	
Finance	Finance	Finance and Economics
Plan and Development	Plan and Development	
Commerce and Industry	Commerce	Trade and Industry
	Industry	
Agriculture	Rural Development & Agrarian Reform	Rural Development & Agrarian Reform
		Livestock, Water, Forestry, & Fisheries
Public Works	Public Works	Public Works
	Transport & Supply	Transport, Tourism & Supply
	Tourism	
Education	Primary and Secondary Ed.	Education
	Universities & Scientific Research	
Health	Public Health	Public Health
Post & Telecommunications	Post & Telecommunications	Post & Telecommunications
Labour	Worker Participation	Worker Participation
Urban Affairs	Urban Affairs	Urban Affairs
	Culture	Social Affairs
	Youth and Sports	
	Women	

<u>Organization of Ministries</u>[1]

Minister
↓
Deputy Minsters
↓
Parliamentary Secretary
↓
Permanent Secretary
↓
Undersecretaries for each Division

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[1]Ministers, their Deputies, and the Parlamentary Secretaries are appointed from the Parliament by the President. The Permanent Secretary, and Undersecretaries are civil service positions. Beginning in 1978 the President had the right to appoint 20% of the Parliament.

EXHIBIT A-3

GROSS DOMESTIC PRODUCT BY ORIGIN (CONSTANT 1970 PRICES)
(billions of ralas)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Agriculture	64.5	63.3	65.4	65.2		73.8	72.2	73.7	74.5	81.3	80.9	73.9	76.3	71.3	76.4	78.3	77.1	77.8	77.9	84.3
Manufacturing (includes mining, construction, electricity, gas & water)	20.3	21.9	24.4	25.7	27.9	46.0	48.7	49.2	48.2	51.4	51.4	46.7	48.1	50.1	56.5	55.0	41.9	36.4	36.9	35.7
Public Administration & Defense	39.4	40.3	43.2	48.1		33.7	37.6	38.2	36.3	32.6	32.2	35.3	35.5	37.3	40.0	41.7	42.0	44.2	44.7	45.4
Other Branches (includes transport & communications, trade & finance)	72.9	74.8	73.2	71.7	71.3	95.9	100.7	94.8	90.2	88.9	92.9	93.6	95.5	90.0	100.2	100.3	89.0	88.5	87.7	88.8
Gross Domestic Product (@ constant prices)	197.1	200.2	206.2	210.7		249.4	259.2	255.9	249.2	254.2	257.4	249.5	255.4	248.7	273.1	275.3	250.0	247	249	254
GDP Deflator (1970 = 100)	83.7	86.9	90.2	93.5	96.8	100	103.7	106.8	119.5	146.9	153.6	169.0	183.4	195.9	218.1	250.8	313.8	410.9	490.5	585.3
Gross Domestic Product (@ market prices)	165	174	186	197		249	269	275	284	348	381	388	416	487	595	690	789	996	1221	1374

LEGEND: Blanks indicate information not available.

EXHIBIT A-4

AGRICULTURAL OUTPUT
(thousands of metric tons)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Food Crops																					
Rice (paddy)	1320	1240	1360	1470	1550	1600	1946	1893	1924	1913	2013	1972	2043	2154	1918	2045	2109	2012	1970	2147	2130
Cassava	750	760	780	780	800	825	1218	1213	1213	1175	1264	1309	1390	1412	1594	1569	1683	1670	1898	1992	2047
Potatoes (white & sweet)	360	370	380	380	385	390	444	453	446	363	383	401	606	536	506	548	539	559	557	716	726
Bananas	15	15	17	17	18	18	271	284	246	300	325	437	351	261	233	250	270	280	284	286	224
Fruits	86	85	86	87	87	92	105	127	182	210	197	205	141	153	174	159	170	166	184	186	190
Vegetables	77	81	74	71	78	81	34	42	43	44	46	51	61	68	23	28	31	32	31	33	38
Beans (dry)	23	25	26	26	26	26	35	34	35	36	34	37	41	35							
Lima Beans							22	20	28	18	24	24	19	15							
Maize	85	85	90	86	90	90	109	114	106	108	118	120	136	122	115	116	127	121	113	132	141
Sorghum	4	4	4	4	4	4	2	2.3	3.2	0.6	1.8	2.3	0.2	—	1	1	1	1	1	2	2
Groundnuts	31	35	26	39	41	46	41	41	49	38	40	42	54	47	34	40	39	33	30	32	32
Export Crops																					
Sugarcane	1250	1200	1210	1220	1250	1250	1239	1190	849	1041	1317	1377	1267	1281	1375	1444	1395	1420	1409	1616	1660
Coffee	67	41	53	71	58	65	67	58	69	74	81	84	79	68	75	82	80	84	81	81	81
Sisal	29.4	29.8	24.4	22.1	22	25	26.3	24.7	29.5	30.9	30	21	25.4	26.3	16	18	16	15.4	15.1	12.5	12.3
Raffia	7.5	7.5	7.6	8.0	7.0	7.0	8.8	5.8	10.6	10.6	9.4	12.4	7.3	7.7	2	7	8	8	8	8	8
Tobacco	4.5	5.0	3.7	4.8	4.6	5.0	5	5.9	5	6	4	4	4	3	3	4	4	3	3	2	3
Cotton	4.9	5.8	5.4	9.1	11.5	14.0	19	22	25	31	33	30	35	37	33	30	23	28	26	26	33
Cloves	4.8	6.0	0.3	13.0	0.5	2.5	3.4	6	6	4	18	5	13	14	13	4	12	10.8	9.9	4.2	18.0
Pepper	1.8	1.4	2.2	2.5	2.9	2.6	2.1	3.5	2.4	2.5	2.8	3.0	4.9	2.9	3	3	3	2.9	2.6	2.6	2.6
Vanilla	0.8	0.8	1.0	1.2	1.0	0.9	1.8	1.7	1.9	1.8	1.4	1.8	1.6	1.0	3	2	3	4.3	5.5	2.2	6.9
Cocoa	0.5	0.6	0.7	0.7	0.8	1.1	1.0	1.0	1.2	1.2	1.6	1.4	1.6	1.2	1	2	2	1.8	1.9	2.8	3.0

LEGEND: — indicates the value is negligible or zero.

A blank indicates the information is not available.

EXHIBIT A-5

EXPORTS
(value in millions of ralas)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Main Agricultural Products	17091	18118	21307	19349	10900		26240	25894	32360	41239	43841	61258	67585	61707	60618	65194	92434	93912	142561
Coffee	7593	8122	8803	8270	1500		11645	13300	15600	14073	28326	40456	36583	38074	45110	30353	32610	49400	81725
Sugar	1485	2138	1575	1656															
Sisal	972	721	749	904			921	1522	2546	2134	1242	1497	1209	1774	1711	1813	2240	1746	2573
Rice	1052	1854	3047	2438			1651	560	1071	565	499	377	171	157	218	266	27	--	--
Vanilla	2216	1672	2530	3013	3600		3918	2217	4476	2966	4733	8752	8645	3114	3945	7491	19778	27212	30400
Groundnuts	295	364	301	247			329	290	165	--	--	65							
Cloves	579	876	1952	407	4700		4207	4058	4008	17345	4304	4923	17223	14979	6583	17721	27400	11022	20485
Livestock & Fishing Products	2587	2211	2186	2903			7198	7938	8853	5028	5346	7045	5865	8057	7928	5916	8125	12860	18157
Agricultural Manufactured Goods							3291	4176	5168	5821	4692		3771	3372	4295	1910	2476	7151	7559
Textiles & Shoes							202	588	1576	1319	2069		1662	2165	1425	4064	2611	6225	6683
Wood & Paper Products	153	123	168	222			177	309	483	186	237		269	181	163	--	--	133	175
Mineral Products	812	692	736	1105			1893	1725	2914	2656	3812		4765	3513	3915	4391	3922	4270	6683
Petroleum Products	166	982	952	1043	1600		1671	2281	5644	5546	4323	2345	1365	2235	1373	4072	3791	4122	811
Total Exports	24132	25711	28608	29154	40222	40807	41864	44751	58504	63044	66035	82927	87214	83800	84800	83500	107900	128673	182629
Total Exports in Constant 1975 ralas	54035	53732	60596	57843	63009	53764	63048	63030	63043	63044	63071	63062	78713	78982	78157	77530	94649	115817	146220
Value Index (1975 = 100)	44.7	47.9	47.2	50.4	63.8	64.7	66.4	71.0	92.8	100	104.7	131.5	110.8	106.1	108.5	107.7	114.0	111.1	124.9

LEGEND: -- indicates the value is negligible or zero.

A blank indicates the information is not available.

EXHIBIT A-6

INDUSTRIAL PRODUCTION

('000 metric tons, unless specified)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Food Processing & Beverages																				
Sugar	105.0	109.2	96.6	98.6	98.1	101.6	93.3	103.8	99.2	115.0	114.5	107.4	109.4	115.6	109.3	109.0	104.7	82.2	95.8	73.4
Tapioca	4.9	3.9	6.5	5.4	5.6	3.7	3.8	2.0	2.9	2.2	2.1	2.6	2.0	2.2	2.1	1.3	1.4	.8	.3	.4
Starch	.9	1.0	1.3	1.7	1.6	1.9	1.1	2.0	0.9	1.8	2.2	0.5	0.9	—	.8	1.4	1.6	1.2	1.0	.5
Edible Oils						7.2	5.9	6.1	6.9	4.6	5.6	5.8	5.9	4.4	3.8	4.0	2.7	2.0	1.5	1.5
Beer ('000 hl)	34.6	49.9	53.4	67.9	80.2	92.8	112.5	120.8	138.5	182.8	211.9	257.0	274.5	257.0	283.8	318.2	210.4	190.1	236.3	228.8
Milk, Concentrate						—	—	1.7	4.2	4.5	4.0	3.9	4.8	5.4	6.0	4.9	2.8	2.4	3.9	3.1
Beef, Processed	11.5	11.6	9.3	9.7	9.5	12.1	12.7	11.5	11.0	7.8	5.0	4.1	7.6	—	3.3	1.3	—	—	—	—
Pork, Processed	.5	.4	.3	.3	.4	0.8	0.9	0.6	0.5	0.2	0.2	0.3	0.7	5.1	—	.4	—	—	—	—
Tobacco Industry																				
Cigarettes	.8	.9	.9	1.0	.9	1.0	0.9	1.1	1.3	1.3	1.2	1.4	1.8	2.1	2.0	2.0	1.9	2.1	1.8	2.1
Smoking Tobacco						0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	.1	.2	—	—	—	—
Chewing Tobacco	1.1	1.2	0.9	1.1	1.3	1.6	1.8	1.9	1.8	1.9	2.0	2.0	1.8	2.0	2.1	2.0	1.6	1.5	1.4	1.3
Textile Industry																				
Textiles	2.6	3.0	3.6	4.5	4.8															
Cotton Fabrics ('000 m)						47655	60653	65618	66029	80617	77685	78129	79488	78184	83289	79260	74833	72889	76040	68584
Sacks	3.5	2.7	3.8	4.4	3.8	4.2	3.9	3.6	3.7	4.4	4.2	4.5	3.6	2.8	3.3	3.4	2.4	1.5	.5	.6
Blankets						1.2	1.2	1.4	1.5	1.3	1.6	1.5	1.8	1.8	2.0	2.1	2.1	1.5	1.3	1.1
Sisal Products						0.7	0.7	0.8	0.8	0.9	0.6	0.8	0.8	—	.7	.7	.7	.7	.9	1.1
Leather Industry																				
Shoes ('000 pairs)						2150	2520	2597	2492	2609	2236	2305	2201	1297	3196	3088	2701	2000	2302	2133
Paper Industry																				
Pulp						6.2	6.7	6.2	8.4	10.4	10.6	9.1	11.5	12.6	13.1	12.1	9.0	9.3	10.0	9.2
Paper						5.7	5.9	5.1	5.5	6.6	6.8	7.4	8.2	8.9	9.1	8.4	7.9	6.4	6.3	6.4
Chemical Industry																				
Soap	1.3	1.3	1.3	2.0	4.1	6.4	9.8	12.3	12.5	13.0	16.8	14.4	16.7	16.6	19.3	18.0	10.1	9.0	11.0	13.4
Candles						2.9	3.0	3.0	3.7	3.8	3.1	3.5	4.1	4.3	4.6	4.6	5.0	2.8	3.7	1.1
Matches ('000 boxes)						74853	60086	62993	53900	53816	51233	48768	62714	68949	53705	45978	19715	6088	886	—
Paint						—	3.0	2.6	2.3	2.5	2.4	3.1	3.1	3.7	3.8	4.3	3.1	1.8	1.8	1.8
Petroleum Refining																				
Butane ('000 m^3)						15.6	15.3	19.2	20.3	18.7	16.6	12.9	9.4	7.5	7.0	8.9	5.9	4.4	2.1	2.3
Motor Spirits						169.4	153.7	162.8	190.4	181.7	163.4	125.7	131.3	93.6	76.0	119.5	86.5	76.1	38.5	13.8
Kerosene						75.9	70.4	77.9	98.3	99.3	109.5	76.6	67.6	42.8	43.7	61.0	53.3	46.5	27.8	7.8
Gas Oil						180.6	171.3	189.9	216.9	201.1	226.3	175.8	145.0	102.1	79.9	147.9	118.4	116.7	64.4	20.5
Fuel Oil						221.5	212.6	201.2	240.3	231.3	314.0	223.8	225.6	165.6	183.1	252.6	151.5	163.1	89.5	22.9
Other																				
Cement	39.2	50.7	59.6	66.9	77.1	75.2	76.9	64.2	69.9	61.4	58.0	69.9	52.2	66.0	63.1	60.1	35.8	35.9	36.2	36.6
Corrugated Sheet Metal						8.2	8.8	8.4	9.0	11.5	4.7	3.1	6.1	9.3	15.4	11.5	1.6	1.7	2.4	3.8
Nails						1.6	1.7	1.1	1.5	1.4	.7	.3	.6	.8	.8	.9	.5	1.1	.9	1.5
Batteries ('000 units)						—	24.1	26.2	26.3	29.5	25.3	24.9	27.2	26.7	20.6	16.4	8.2	13.0	16.2	13.1

LEGEND: — indicates the value is negligible or zero.

A blank indicates the information is not available.

EXHIBIT A-7

VALUE OF MERCHANDISE IMPORTS
(millions of ralas)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Food & Beverages	4778	3760	4373	5795	5400	7300	5827	7245	12638	8429	6966	9865	14393	17192	8137	26636	44030	29948	21620
Rice							1223	2869	9259	4893	4360	4325	8930	10989	3088	18451	36717	24375	17177
Cereals & Cereal Products							1148	1059	881	968	1045	2866	2994	2869	2317	6316	3715	799	1161
Dairy Products							1417	919	1041	988	835	1256	1205	1747	1503	745	1569	1782	2267
Processed Food							868	1030	708	801	369	752	529	825	549	414	202	1821	477
Beverages							959	1159	518	553	211	506	458	440	451	373	62	90	435
Other							213	209	230	225	146	160	277	322	229	337	1765	81	103
Other Consumer Goods	6638	7959	10761	9593	8800	11100	9712	8725	9401	11844	11766	15840	12796	17946	17868	11687	13150	13745	20178
Tobacco & Tobacco Products							490	256	201	363	258	256	922	1102	561	435	39	430	171
Soap & Cosmetics							260	251	145	188	151	176	124	89	91	159	496	63	249
Pharmaceuticals	966	976	1266	1160			1623	1636	2398	2467	3235	3665	4065	4698	4750	4107	3286	3897	4685
Books & Periodicals							358	306	456	603	359	528	945	1062	1188	1216	1800	1290	1543
Textiles	4620	5423	6684	5036			1287	1004	945	978	886	1070	850	1471	1095	678	560	660	2055
Rubber Products							1028	893	1072	2529	2282	1567	1389	2993	3546	2136	1807	2763	3997
Cutlery & Household							202	132	236	202	441	755	456	1066	1026	272	342	543	764
Electrical Equipment							1192	1539	1825	1880	577	—	876	1419	1519	890	765	982	2466
Cars, Motorcycles, etc.	1052	1160	1441	1394			363	349	331	596	576	—	640	1130	1492	360	460	282	758
Other							2910	2360	1793	4260	3000	—	2529	2916	2600	1433	3595	835	3490
Mineral Fuels & Lubricants	2233	2084	2441	2983	3491	3888	4454	4311	12119	15691	13647	13107	14300	14954	14693	13830	37287	48194	71197
Crude Petroleum	604	1138	1617	1938	2406	2428	3089	3315	10751	14601	12468	10851	11293	8729	5949	7858	29389	35651	26753
Petroleum Products	1514	756	724	948			1249	929	1266	919	942	2062	2811	5793	8322	5726	7426	11640	44126
Other	115	106	100	97			116	67	102	170	237	194	196	432	422	246	472	903	318
Other Intermediate Goods	12747	13400	14564	15845	16709	19200	15461	13489	21613	26635	21173	27378	31242	42950	48248	36808	39817	52153	64445
Oil & Fats							729	762	2092	2309	2508	2384	2173	4288	3781	3070	3586	5445	5044
Tissues & Textile Fibers							3002	2065	2539	3010	3207	4693	4637	7117	6457	4886	4076	5477	6707
Plastics							721	692	1340	1318	1308	2075	2020	2923	3604	2161	2975	2754	4339
Fertilizer	111	269	458	476			137	348	405	839	559	481	1892	1005	1366	810	3128	1959	3314
Paper & Pulp							820	742	1308	1718	1144	1730	1668	2096	2521	1774	1752	3583	2930
Cement	404	319	412	427			471	393	334	766	365	638	918	1342	1735	4244	2078	2811	2733
Iron & Steel Products							3693	3206	5748	6205	4175	6781	6626	9264	12503	9982	7208	12438	14565
Parts for Cars, etc.							971	761	958	1538	1096	1553	1530	2464	2407	1541	1927	248	4303
Animal Feed							71	61	32	42	40	43	37	69	52	16	18	51	54
Other							4845	4460	6257	9564	6817	7000	9741	12382	13822	11393	13069	17387	20456
Capital Goods	7535	8681	9885	11982	12920	17740	16202	11386	11483	15448	14882	19027	26901	42278	37131	45385	40556	39987	57303
Machinery	3508	3332	3860	5825	5534	7028	7012	4163	5183	8086	6808	8342	15717	14469	20869	26584	17716	17732	27184
Electrical Machinery	2508	2482	2326	2900	1920	2870	2865	2161	2210	2276	2507	3295	3595	4178	5589	7733	8114	5792	7793
Transport Equipment	775	1235	1535	1617	4438	6349	5211	4392	3260	3831	4584	5707	6076	21454	7998	8914	12933	12500	16202
Tools & Instruments					545	890	1102	663	822	625	980	1675	1505	2146	2625	2145	1779	3924	6106
Live Animals					3.1	5.2	21	7	11	5	4	10	8	31	23	9	14	39	18
Total Merchandise Imports	34931	35884	42024	46198	47320	59228	51755	45155	67257	78047	68434	85217	99632	135320	126077	134346	174840	184027	234743
Import Index	51.6	52.8	54.4	55.2	60.7	75.9	66.3	57.9	86.2	100	87.7	109.2	116.0	175.7	188.6	219.4	206.4	186.2	172.8
Total Imports in Constant 1975 ralas	67696	67962	78697	83692	77957	78034	78062	77988	78024	78047	78032	78038	85890	77018	66849	61233	84709	98933	135847

LEGEND: — indicates the value is negligible or zero.

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EXHIBIT A-8

Year	Inflation Rate	CPI (1975 = 100)	Interest Rate	Exchange Rate (Rala/US $) (average yearly rates)
1965		57.2		
1966	2.10	58.4		246.90
1967	1.20	59.1		246.90
1968	1.35	59.9		246.90
1969	5.34	63.1	4.2	258.10
1970	1.58	64.1		277.70
1971	5.46	67.6		277.70
1972	5.62	71.4		252.20
1973	6.02	75.7		222.70
1974	22.06	92.4	5.5	240.50
1975	8.23	100.0		214.30
1976	4.30	104.3		239.00
1977	4.22	108.7		245.70
1978	8.56	118.0		225.60
1979	11.27	131.3		212.70
1980	18.35	155.4		211.30
1981	30.63	203.0	8.0	271.70
1982	31.77	267.5	12.5	349.74
1983	19.36	319.3	12.8	430.45
1984	9.83	350.7	13.0	576.60
1985	8.64	381.0	11.5	662.48

LEGEND: CPI = Consumer Price Index.

A blank indicates the information is not available.

EXHIBIT A-9

SOURCES OF CENTRAL GOVERNMENT REVENUES AND EXPENDITURES
(billions of ralas)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Current Revenue	24.9	26.3	28.0	31.9	34.5	38.8	44.3	42.1	45.6	49.4	52.9	60.5	68.0	86.5	119.1	123.3	119.6	151.6	185.4	243.0
Tax Revenue	22.9	24.8	26.4	30.1	33.0	35.5	41.5	38.5	40.7	44.5	48.9	50.2	62.8	76.8	109.1	102.6	102.8	117.3	139.4	160.7
Direct	3.8	4.9	5.3	5.6	5.6	6.6	6.9	6.5	9.3	8.2	9.3	7.4	10.5	12.5	25.7	21.2	24.9	24.1	26.5	37.4
Indirect	19.1	19.9	21.1	24.4	27.3	28.9	35.6	32.0	31.4	36.2	39.6	42.8	52.3	66.3	83.5	81.5	77.9	93.2	112.8	123.2
Consumption Taxes	2.8	3.6	3.7	4.2	4.4	4.9	5.8	5.6	6.1	6.4	6.6	7.9	8.2	9.9	9.8	28.1	31.5	39.9	54.3	51.1
Turnover Tax	2.1	2.2	2.7	3.1	7.0	6.8	7.7	7.2	7.4	8.9	10.2	10.2	12.5	14.0	18.6					
Import Taxes	8.9	9.1	9.4	12.0	10.5	11.2	13.7	12.3	11.1	12.1	14.4	15.1	20.0	22.0	31.0	43.2	34.1	38.4	42.7	53.6
Export Taxes	2.2	1.7	1.7	1.8	1.8	2.1	2.4	2.4	2.9	3.1	5.5	4.1	4.2	4.4	4.7	8.3	10.0	12.0	13.0	15.4
Other Indirect	3.1	3.3	3.6	3.3	3.6	4.1	5.0	4.5	4.0	5.7	2.9	5.6	7.3	15.0	19.4	1.9	2.3	2.9	2.8	3.1
Non Tax Revenue	1.9	1.4	1.6	1.8	1.5	3.2	2.8	3.7	4.9	4.9	4.1	10.4	5.2	9.7	10.0	26.2	19.3	33.2	50.1	82.9
Marketing & Stabilization Funds																15.6		26.4	36.3	61.8
Current Expenditures	24.3	24.5	26.5	28.9	32.4	30.8	33.8	37.5	44.3	45.2	49.4	63.3	78.0	90.7	107.0	113.6	115.7	131.6	145.8	172.7
Public Debt Service	.8	.5	.6	1.1	1.5	1.3	2.1	2.1	4.7	3.5	3.1	3.2	3.9	4.9	2.3	4.0	6.8	10.9	14.9	25.4
Wages & Salaries	11.0	12.1	12.8	13.7	14.9	15.4	16.8	17.9	24.0	27.0	29.2	37.7	44.7	48.9	56.8	59.5	68.0	80.7	81.9	92.0
Goods & Services	3.8	3.3	4.0	4.3	4.7	10.9	11.3	10.9	9.1	9.1	10.9	16.3	22.0	25.5	13.2	32.8	23.6	22.0	26.2	28.4
Transfers & Subsidies	2.5	1.9	2.7	3.0	3.1	3.2	3.6	6.6	6.5	5.7	6.1	6.2	7.4	11.4	34.6	12.8	12.3	12.9	16.6	20.3
Other	6.2	6.6	6.5	6.8	8.2	—	—	--	--	--	--	--	--	--	--	4.5	5.0	5.1	6.2	4.6
Capital Expenditures								17.2	14.1	13.6	13.1	19.3	11.9	15.6	56.9	89.6	91.6	72.1	99.0	8.78
Other Expenditures								.5	1.1	15.9	12.1	16.7	32.9	45.6		47.6	30.4	39.4	41.2	50.7
Marketing & Stabilization Funds										8.2	7.5	14.6	19.5	33.6		30.3		6.1	13.0	16.6
Rice Imports										6.3	4.0	1.8	3.6	--	--	4.1		12.2	3.2	2.8
Other										1.4	0.6	0.3	9.8	12.0	--	13.2		14.0	28.5	31.3
Total Expenditures								55.2	59.5	74.7	74.6	99.3	122.8	151.9	166.9	250.8	237.7	243.1	269.9	311.2
Expenditures as % GDP								20.1	21.0	21.5	19.6	25.6	29.5	31.2	28.1	36.3	30.1	24.4	22.1	22.6
Overall Balance								-13.1	-13.9	-25.3	-21.7	-38.8	-54.8	-65.4	-47.8	-126.7	-118.1	-87.0	81.6	-66.2
In Constant 1970 ralas																				
Current Revenue								39.4	38.2	33.6	34.4	35.8	37.1	44.2	54.6	49.2	38.1	36.9	37.8	41.5
Current Expenditures								35.1	37.1	30.8	32.2	37.5	42.5	46.3	49.1	45.3	36.9	32.0	29.7	29.5
Total Expenditures								51.7	49.8	50.9	48.6	58.8	67.0	77.5	76.5	100	75.7	59.2	55.0	53.2

LEGEND: -- indicates the value is negligible or zero.
A blank indicates the information is not available.

RALANDIA (B)

THE AGRICULTURAL SECTOR

In less than two weeks, President Peter Kamande is due to make his annual "Report to the Nation on the Status of the Revolution" as part of the 1986 New Year's Day festival. The price of rice in the capital city of Masunebi is now about 600 ralas per kilo; it has more than doubled since June. In April, Kamande allowed the agricultural minister, at the recommendation of the World Bank, to remove the ceiling price of 300 ralas, an action which was the culmination of two years of successive liberalizations of the rice sector. Unknown to the public, this decision was also the source of open conflict among Kamande's ministers.

Rice has become the most important staple of the Ralandian diet; indeed, Ralandians rank among the greatest consumers of rice per capita in the world.[1] The average urban dweller consumes 400 grams of rice per day.

The Ralandian Workers Federation (RWF), the country's largest trade union, as well as the National Union of Students and several of the largest political parties openly opposed lifting the price ceiling on rice. As a result of the increasing cost of consumer goods, especially rice, the RWF has scheduled a rally on December 30th, to press its demand for an increase in government wages of 25%. The wage of the average government worker, 50,000 ralas per month, has not increased in two years. President Kamande knows that the public expects some statement from him regarding the government's response to the current crisis in his New Year's speech.

In a report to the president, Joseph Rusisi, a key economic advisor set out three policy options for dealing with this situation:

1. to maintain the current policy of gradual liberalization;
2. to increase the pace of liberalization to include other sectors of the economy in the reforms;

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[1] Before the mid-1970s maize was also a major staple. Pricing policy has changed consumption habits during the past ten years.

3. to backtrack on the liberalization action by reimposing certain key controls and restoring the government's role, through the parastatals which were formerly responsible for the collection and distribution of rice at official prices.

President Kamande ordered the Ministry of Rural Development and Agrarian Reform (MRDAR) to commission two outside consultants to analyze the current situation and to recommend actions. He specifically requested that these consultants have differing perspectives on how to promote agricultural development. The first consultant, Bird Associates from Washington, D.C., concluded that Ralandia should maintain its commitment to liberalization and that the source of the current crisis was inconsistency in current government policy. They argued that, despite short-term costs, Ralandia would gain long-term benefits from speeding up the liberalization process. The second consultant, the Center for Development Studies in England, concluded that Ralandia should reimpose certain protections, most importantly, the ceiling price for rice, arguing that monopolistic speculative traders were hoarding rice in order to maximize profits and that government should again become more actively involved in marketing. The executive summaries of both of these reports are Exhibits B-1 and B-2.

Colonial Period

Prior to the British colonization, agriculture in Ralandia, as in most of pre-colonial Africa, was dominated by small-holders. In order to encourage European settlement, the crown seized 10% of the most fertile land, and sold it to settlers at low prices. The colonial administration made considerable public investments in building basic infrastructure to support export-oriented agriculture, most notably transportation and hydraulic systems. Through the imposition of a head tax, the colonial administration generated revenues, ensured the availability of labor for the settlers' plantations, and induced the indigenous population to produce a surplus. The plantation sector was dominated by white settlers, while small-holder agriculture remained the domain of indigenous farmers.

Private import/export companies developed strong links with the settlers. Textile manufacturers and exporters, particularly the Indians and

Chinese, developed networks to distribute inputs and collect products. The colonial administration established marketing boards for rice, cassava, coffee, pepper, vanilla, sugarcane, tropical fruits, cloves, and cotton. They developed an integrated program to encourage exports. It included establishing producer prices based on export market prices; supplying inputs for export crops at subsidized prices; and developing research and extension systems. As part of its policy of encouraging exports, the administration set subsidized rates for truck and train transport of export commodities. Export taxes were low enough not to discourage exports.

The colonial administration was interested in maintaining low domestic consumer prices in order to avoid political discontent. At the same time they sought to develop exports. These concerns determined their policies affecting rice. Rice production, a predominantly small holder activity, was encouraged by several specific policies: obliging each village to cultivate rice; investing in hydraulic improvements; distributing subsidized agricultural equipment; providing agricultural credit; and researching new varieties. Rice prices were kept low by importing when local production was insufficient, and fixing prices during crisis periods. After the particularly disasterous floods of 1959, the colonial administration fixed official prices for paddy and rice, with the intention of assuring producers a fair remuneration, protecting consumers from speculative price fluctuations, and safeguarding exports. This particular set of objectives continued to guide rice marketing and price policy in the post-independence period.

Private trading companies which often traded in several commodities had a well-developed system for collecting agricultural products. The firm, usually headquartered in Masunebi, would advance money to collectors located in the rural areas. These collectors, operating under the license of the firm, were responsible for grading and weighing the products. For export crops, the stabilization fund set the producer price. The firm paid the collector a commission based on the quantity collected. For rice, the firm paid the collector a negotiated price per kilo. He was free to pay whatever he wanted in order to obtain the product. In some cases (especially in more remote areas) a collector would commission a villager to collect on his behalf, paying a commission based on the quantity collected. Generally, the trading companies had their own fleet of trucks as well as other necessary equipment for bringing the products into the city. Their networks reached far into the rural areas.

Independence

In accordance with its strategy of maintaining a close relationship with the colonial power, the Nkisane government encouraged Europeans to maintain their plantations. In addition, the government encouraged development of indigenous agriculture by extending subsidized inputs to small-holders.

The institutional structure of agriculture remained basically the same as under the colonial administration, with exports being promoted by a combination of private companies and public marketing boards. Basically, all the marketing boards and stabilization funds functioned similarly. The Ministry of Commerce, with the Council of Ministers' approval,[2] determined the guaranteed producer prices payable for crops delivered to local buying stations. In principle, this price was determined on the basis of the level of existing crop inventories, crop forecasts, current and expected world prices, and the level of financial reserves available to support the price. In practice, the price paid to producers varied from one buying station to another according to the cost of collection and other related intermediary charges. It was determined as a function of the f.o.b. export price by subtracting a certain amount for a tax plus the various marketing charges. If the world price rose, the producer price would be raised moderately; if it fell, the producer price would generally stay the same or drop slightly. There was always a hefty tax paid to the government, though the exact percentage varied with the world price.

During the period 1964-1970, the unit cost of producing rice decreased and output grew rapidly. The adoption of irrigation, fertilizer, and improved seeds expanded as a result of a massive rice development project in

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[2] Prior to independence, the management committee of each stabilization fund or marketing board set its own prices.

the high plateau areas financed by the British government, the Rice Transformation Scheme (RTS). This project, which was staffed largely by expatriates, imported and delivered inputs and improved seeds to the farmers.

The system of setting official prices for rice, begun in 1959, appeared to work reasonably effectively. Although the government did not intervene directly in the market and did not rigourously apply price controls, most transactions seemed to occur at prices close to the official ones.

In 1971 financing for the RTS ended, after which farmers had difficulty obtaining inputs at the correct time. Consequently, they began to return to their tried and true varieties. Rice output began to stagnate.

In the area of export crops, performance was mixed. Cotton, vanilla and groundnut production took off. Cocoa, pepper, and tobacco output increased steadily. Production of cloves, which follows a four year cycle, also increased. Sugarcane, coffee and sisal production stagnated.

1973-1979

During the period of political turmoil from 1973 to 1976, agricultural policy was largely neglected. Investments in physical infrastructure (roads, irrigation canals, etc.) went into new projects at the expense of maintaining existing facilities. Services also deteriorated as a result of a series of poorly executed ministerial reorganizations. Rice output continued to stagnate, and Ralandia began to import substantial quantities of food, especially rice.

The new government's agricultural policy has been administered through the Ministry of Rural Development and Agrarian Reform (MRDAR). The MRDAR was responsible for developing and executing production oriented policies and for executing the pricing and marketing policies set out by the Ministry of Commerce. Its jurisdiction covers providing support services for agricultural, livestock, fishery and forestry production, including basic farmer extension services, plant protection, veterinary services, irrigation systems, and research. It is also responsible for agricultural planning, land reform, and supervision of many parastatals and a number of semi-autonomous agricultural agencies.

Feeling that it was too important to leave to the private sector, the government established public control over the marketing of major commodities between 1973 and 1975. This was done by purchasing majority interest in or nationalizing the major foreign-owned trading companies. This was followed by efforts to establish an effective government monopoly, the National Agricultural Products Agency (NAPA), for processing and distribution of key commodities, most notably rice and cattle/meat. Similarly, efforts were made to give state monopolies to the agro-industrial enterprises which process a wide variety of agricultural commodities. First they were nationalized and subsequently granted state monopolies. Roadblocks were set up to prevent illegal inter-regional trade in agricultural commodities, especially rice.

NAPA was created as an all encompassing organization oriented toward production, processing, and distribution of agricultural products. It was supposed to provide inputs, regulate prices, collect, buy, transport, process and package, stock and sell agricultural products, especially paddy and rice. In pursuit of this goal, NAPA established collection and distribution centers for various products in each of the sub-locations. NAPA agents were to go to central places to buy from the farmers at the official producer prices.

Immediately after the revolution, many white settlers left Ralandia. The Kamande government nationalized the plantations they left behind. These lands were to be redistributed to socialist cooperatives. As part of the "Race to 2000 Campaign", in June 1977 the government launched "Masarubu", a program to establish decentralized collectives (a reorganization of local government down to the village level). They were intended to be the focal point for the improvement of agriculture, and for the management of state collection and distribution agencies such as NAPA, RATCO, and TRACORIO[3]. The government urged all citizens to invest in the rural areas. The newly created National Bank for Agricultural Development established several branches in rural areas. "Masarubu" also envisioned several projects which were never implemented such as: sending 1000 agricultural engineers and technicians from their offices in Masunebi to the countryside to advise and

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[3]RATCO is the Ralandia Trading Company; and TRACORIO is the Trading Company of Ralandia and the Indian Ocean.

work closely with the peasants; and requiring all high school graduates to do national service in the countryside before continuing higher education or seeking employment.

In 1978, in order to increase production and implement "Masarubu", President Kamande, himself, toured the countryside. He offered villages 500,000 ralas to cultivate an additional 20 hectares of rice and form a Masarubu village in which the land would be farmed collectively. Only six Masarubu villages were ever formed.

Unable to lure the peasantry into collective farming, the government set up the Development Brigade, a branch of the military which would be devoted to development activities. The government made a massive investment in agricultural equipment, 1000 tractors and 200 steam shovels, to supply these soldiers with tools for modern production. After two years, much of the equipment was in disrepair, and output from these state farms was virtually zero. Eventually the government closed the farms and sold the equipment to interested peasants and companies.

Prior to 1978, MRDAR was essentially organized along the functional lines of agriculture, rural engineering, livestock, and water and forests. In 1978 a far-reaching reorganization was introduced, which sought to decentralize MRDAR staff and services along the lines of the "Masarubu" reform. The purpose of the reorganization was to improve coordination among the field services of the ministry, to shift the focus of management and planning away from the capital to the district level and below, and to promote close cooperation with the people. The reorganization was undertaken with virtually no planning or preparation of staff and without sufficient thought to the maintenance of technical discipline and authority within the new decentralized structure. Consequently, services deteriorated, making it difficult to implement new development efforts through the Ministry's own organization. The Ministry was reorganized again in December 1982, with the objective of returning to the pre-1978 functional structure. Since then, MRDAR has had responsibility for establishing producer prices. Exhibit B-3 shows the evolution of producer prices for the major agricultural products.

In the late 1970s the government created four parastatals to provide inputs for agriculture: two companies which manufacture agricultural implements, and two fertilizer factories which have not yet opened. Ten other parastatals provide support services to agriculture, including the export promotion activities which were formerly conducted by the stabilization funds and a national agricultural research organization. Financing the parastatals has been difficult. It is generally ad hoc, without clear procedures. Many parastatals have had chronic deficits, forcing them to borrow from state owned banks or receive government subsidies to continue operating. Financial difficulties have led to poor performance, which in turn increased losses. In the mid-1970s high world prices for coffee, cocoa and sugar led to windfall export taxes which added considerably to government revenues. The government did not plan for the eventual fall in the prices of those commodities. Between 1976 and 1980 only six out of 33 parastatals under the supervision of MRDAR showed profits, and 60% of their total profit in 1980 was from the cotton production and marketing parastatal.

1980 - 1983

By 1980, production of paddy and the export crops of vanilla, pepper, sugarcane and cocoa had been virtually stagnant for almost ten years. Coffee output fell in 1976 and 1977 due to climatic factors and then returned to its previous levels, stagnating between 1979 and 1984. Cloves and cotton are the only products that sustained production increases through the 1970s. Due to a fall in the price of exports, revenues from agricultural exports did not increase substantially in the early 1980s. The need for foreign exchange, however, was particularly high due to increased imports of basic foodstuffs and to the drastically increased debt burden as a result of the "Race to 2000 Campaign" program of the late 1970s.

Beginning in 1980, in the context of this balance of payments crisis, the government was forced to decrease its purchase of imported inputs and drastically reduce imports of consumer goods, exacerbating the already poor performance of the agricultural sector, particularly rice. The black market price of rice rose rapidly. As the difference between official and black market prices increased, less and less rice was available on the official market. By 1981, the government recognized that there was an overall crisis of the entire agricultural system. Something had to change.

In 1982, the Minister of Rural Development and Agrarian Reform, Simon Kapana one of the new technocrats who replaced a politician as Minister, requested the World Bank to fund a study of the rice sector in Ralandia. One major conclusion of the study was that outside of the capital, consumers used the parallel market extensively, and were paying higher than official prices for rice. Based on the findings and recommendations of the study, Kapana proposed a three phase liberalization of the rice sector: (1) to legalize private trade between government established ceiling and floor prices in all regions but the two reserve zones of AGPRODCO and RALAKO; (2) to legalize private trade in the reserve zones; (3) to lift the price ceiling on milled rice. In April 1983, Kapana announced to the Donor's Consultative Group that the Ralandian government intended to fully liberalize trade in locally grown rice, including removing all restrictions on the trade, processing, and retailing of rice. The government intended to continue to play an important role in influencing markets and prices through control of imported rice.

In June 1983, the government announced the liberalization in the Official Journal. Decree 1983.95 was announced on radio and television, and an article appeared in the Ralandian Standard, which circulates mainly in the capital city. On June 15, 1983 a special announcement was made in Masunebi to private collectors so that they would begin to expand their operations. Roadblocks, which had inhibited illegal traffic in inter-regional rice trade, were removed.

Decree 1983.95 stipulated that the marketing of paddy and rice operates under "the principle of free competition between the public and private sectors". Rice marketing in the areas of AGPRODCO and RALAKCO, two large parastal irrigation schemes which supplied more than 70% of the local paddy sold by the government, was excluded from the liberalization. The decree legalized the purchase of paddy by wholesalers who had been issued collectors cards by the district authorities, and permitted the sale of milled rice anywhere by any person wishing to do so. Only traders who deal in large quantities have been authorized to purchase paddy. Owners of small mills and other small traders are still operating illegally. A separate decree, 1983.96, fixed a floor price of 65 ralas/kg for paddy, a selling price of 140 ralas/kg for imported rice and a ceiling price of 300 ralas/kg for rice. (On June 14th, the day before, the official price for rice had been 75 ralas/kg.) The floor price for paddy was raised to 75 ralas/kg in July 1984, and to 85 ralas/kg in 1985.

<u>1984-1985</u>

Paddy production increased only slightly in 1984. However, the queues in front of ration shops selling rice had disappeared. Rice was available everywhere. Although the market price for rice was higher than the price of imported rice, and the price of local rice rose slightly above the ceiling, it was still lower than what black market prices had been, and regional differences in prices had fallen. Exhibit B-4 shows official and parallel market prices for rice.

In February 1985, the government announced that it would require officially recognized traders to (1) declare their stocks of rice and paddy; (2) hold security stocks which could be sold only with government approval; and (3) justify their sale prices based on their costs.

All the government's shipments of imported rice for 1985 arrived by June. Government rice shops received deliveries of imported rice regularly between Janaury and August, after which no more deliveries were made. The only rice available on the market between August and December was local rice from the May/June harvest, which put considerable pressure on prices.

The ceiling price for rice was abandoned in June 1985.

<u>Government's Goals In The Agricultural Sector</u>

In a series of development strategy statements, speeches by top officials including President Kamande and his agricultural ministers, and national planning documents, the Ralandian government articulates its goals for the agricultural sector. In rough order of their importance they are the following:

1. <u>To promote the full and effective control by Ralandians of the economic resources of their country</u>. The socialist revolution in Ralandia

was directed at reassertion of national authority and autonomy as well as at transformation toward socialism. Economic nationalism remains a constant theme in the Kamande regime's policies. President Kamande's speeches are infused with references to the struggle against neo-colonialism and the need for self-reliance, especially in food.

2. <u>To establish effective influence by the government over the directions of development</u>. The Kamande government equates market operations with capitalism, and perceives operation of the market as limiting the capacity of the government to direct development efforts. It has attempted to control the development process by creating administrative institutions and procedures. Since 1982, the government has been more flexible on this issue. Kamande, himself, appointed a new group of economic technocrats to ministerial posts who, while remaining wary of unfettered free markets, believe that government should use market mechanisms to influence the direction of economic outcomes.

3. <u>To integrate the agricultural sector and agricultural resources into the broader national development goals of the country</u>. Agriculture is the key to self-reliance. The agricultural sector must be integrated with industry to provide raw materials for production, food for industrial workers, and demand for the goods produced by the industrial sector.

4. <u>To improve the productivity of the land and of the rural people</u>. The key to agricultural development lies in improving productivity. This goal is the major operational focus for the Ministry of Rural Development and Agrarian Reform.

5. <u>To redistribute food from areas of surplus production to areas of deficit production</u>. Ralandia is marked by wide regional variations in food production. One of the key goals of government is to ensure that deficit areas, especially cities and towns, are supplied with food.

6. <u>To provide relatively inexpensive food to consumers</u>. The main political demand of urban residents is for inexpensive food. The government has always been committed to meeting this demand, through imports as well as local production. This is a particular priority for the Ministry of Supply.

7. <u>To use agriculture in the quest for a viable balance of payments situation</u>. The government wants to promote participation in international

trade and finance as an instrument for national development. Balance of payments issues in agriculture have become increasingly important due to the on-going balance of payments crisis. Promoting exports and minimizing the need for imported food are seen as part of the solution. The Ministry of Finance and the Central Bank have become more directly involved in agricultural policy issues than before.

8. <u>To use agriculture as a source for government revenues</u>. This is accomplished through a number of mechanisms including export taxes and stabilization funds. While not often mentioned publicly, an examination of the Ralandian budget shows that the rural areas provide substantial proportions of total government revenues.

EXHIBIT B-1

EXECUTIVE SUMMARY OF BIRD ASSOCIATES REPORT TO MINISTRY OF AGRICULTURE, RALANDIA

(Bird Associates is a Washington-based consulting firm which has been active in promoting liberalization and privatization reforms in various African countries. They previously participated in a World Bank long term technical assistance team in Ralandia's Ministry of Rural Development and Agrarian Reform. They are often hired by the World Bank.)

Mr. McKinnon, of Bird Associates, spent the first two weeks of December 1985 in Ralandia. A summary of his report follows:

A. Liberalization was the appropriate response to the agricultural crisis of the early 1980s. The problems were that: (1) liberalization was too narrowly conceived -- it should have included sectors other than rice; (2) the government failed to sufficiently publicize changes to either local officials or the public;[1] (3) the price of imported rice was set too low; and (4) there was a lack of complementary measures. To balance the anti-liberalization pressures from consumers, the government should appeal for support from those who would benefit from liberalization, rural producers and merchants.

B. For the rice sector in particular, the government should improve the physical infrastructure of the transportation system,[2] and create incentives for the private sector to move rice from producers to

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[1]Our study indicated that: (1) many traders were not aware that their rice trading activities are no longer illegal; and (2) that some local officials still impose fines or jail private merchants when they find them trading rice.

[2]Many regions which are surplus producers of rice, or which produce export crops are frequently isolated by collapsed bridges or impassable roads. Coffee producers in one region reported that down river shipment by canoe is the only way they can evacuate their crop. One route along the coast which took one day 30 years ago, now takes four days.

consumers, ie. by liberalizing the licensing of truckers. The government should sell imported rice at market prices to all but the poorest consumers. Long term measures must include liberalization of input supplies, intensified seed multiplication, and research. Finally, in calculating imports the government should not consider current levels of per capita consumption of rice as fixed.

C. For agriculture more broadly conceived, the government should (1) further devalue the rala to shift the domestic terms of trade between producers and consumers and to improve the viability of exports; (2) reform the complex administrative system in the export sector; (3) end fertilizer subsidies and allow the private sector to distribute agricultural inputs to farmer; (4) allow market forces to set prices for export crops, as it now does for rice; and (5) create financial incentives and loosen administrative constraints to promote foreign investment in agriculture which would result in increased production and technological innovation.

EXHIBIT B-2

EXECUTIVE SUMMARY OF CENTER FOR DEVELOPMENT STUDIES REPORT TO MINISTRY OF AGRICULTURE, RALANDIA

(The Center for Development Studies (CDS) is Britain's major think-tank on African development issues. Center staff have served as advisors to the governments of Tanzania, Mozambique, Madagascar, and Guinea, and have been part of long term technical assistance staffs to export marketing boards. CDS draws upon staff from Universities where many members of the Revolutionary Government were trained.)

Mr. Vert from the CDS spent the final week of November and the first week of December in Ralandia. The summary of his findings follows:

A. While the agricultural crisis of the early 1980s necessitated a new approach on the part of government, the liberalization strategy that was forced on the Ralandia government by the IMF and the World Bank is the direct cause of high prices for rice. Continuing along the liberalization road will further exacerbate current problems, and lead to both economic immiseration of the workers and peasants and threaten the ability of the government to maintain the socialist orientation to which it is committed.

B. In terms of the rice sector, there are three main problems with the liberalization scheme: (1) It made the government hostage to exploitative intermediary groups, who are concerned only with maximizing their wealth and not with the well-being of the people; (2) it grossly overestimated the supply responsiveness of peasants to changes in the price of paddy; and (3) it especially threatened the livelihood of those Ralandians to whom the government has made its greatest commitment, the poorer workers and farmers.

C. The liberalization strategy, if continued, will preclude the Government of Ralandia from maintaining influence over the direction of change in the rural areas. Instead, the government should re-affirm its commitment as the vanguard of the socialist development process, acting on behalf of all the Ralandian people. The ceiling price for rice should be reintroduced in order to restore popular confidence in the regime and to meet the pressing need of Ralandia's poor. Stiff penalties must be introduced for economic sabotage, directed especially towards unscrupulous traders who seek to use the current difficulties for their personal gain. In order to promote production, the government must ensure that low-cost inputs are made available to all farmers. Finally, in order to stimulate diversification of exports, the government should revitalize the research components of the major marketing boards and stabilization funds.

EXHIBIT B-3

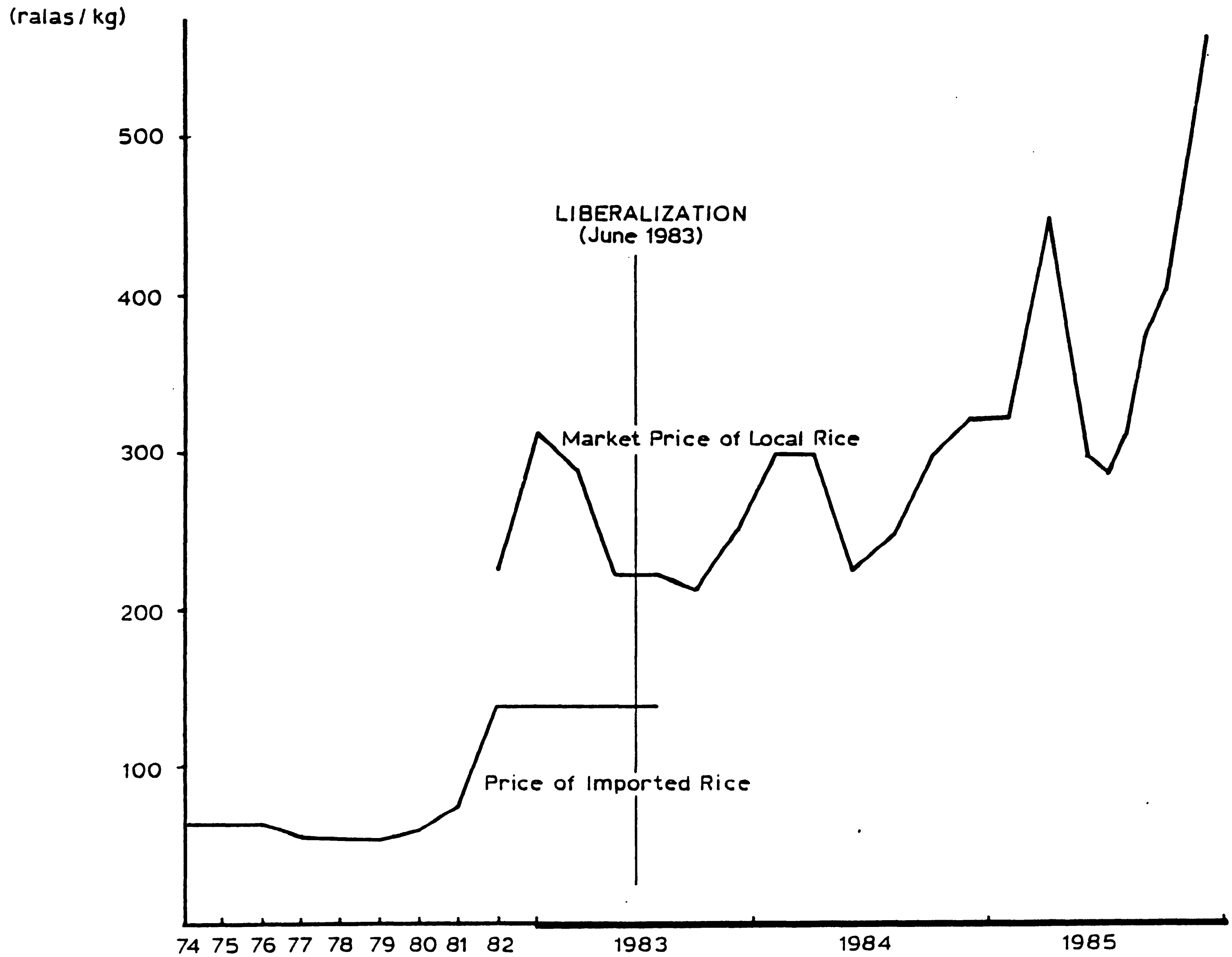
COMPARISON OF PRODUCER PRICES
(1972-1985)

PRODUCER PRICES (nominal ralas/kg)	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Rice (paddy)	12.6	13.0	13.4	13.6	14.2	15.0	15	15	25	30	30	35	35	39	43	47	60	65	75	83
Coffee	100.0	105.0	105.0	105.0	133.0	133.0	133	133	162	162	162	177	180	185	215	250	260	280	330	395
Cloves	110	110	110	250	250	275	281	281	320	320	320	340	340	385	395	430	435	435	435	435
Vanilla	185	130	150	170	190	220	219	219	239	250	250	278	305	500	600	700	700	1000	1000	1000
Pepper	170	140	120	100	125	150	150	150	176	176	180	191	195	200	225	225	230	230	255	300
Sisal	40	36	30	35	34	34.4	31	59.6	74.3	70	80	80	74	84	86	140	150	150	--	--
Tobacco	177	148	92	87	102	94	121	119	126	140	140	160	160	174	191	210	231	231	256	--
Cotton	40	36	30	35	34	34.4	58	60	68	78	78	80	80	86	90	100	126	155	240	--
Groundnuts	214	179	111	105	123	114	26	27	33	38	38	42	45	45	55	65	80	80	--	--
Cassava	2.75	3.0	3.0	3.25	3.25	3.4	3.4	3.4	4.0	6.0	6.0	6.0	6.0							
PRODUCER PRICE INDEX (1972 = 100)	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Rice (paddy)	84	87	89	91	95	100	100	100	167	200	200	233	233	260	287	313	400	433	500	553
Coffee	75	79	79	79	100	100	100	100	122	122	122	133	135	139	162	188	195	211	248	297
Cloves	39	39	39	89	89	98	100	100	114	114	114	121	121	137	141	153	155	155	155	155
Vanilla	84	59	68	78	87	100	100	100	109	114	114	127	139	228	274	320	320	457	457	457
Pepper	113	93	80	67	83	100	100	100	117	117	120	127	130	133	150	150	153	153	170	200
Sisal	129	116	97	113	110	111	100	192	240	226	258	258	239	271	277	452	484	484		
Tobacco	177	148	92	87	102	94	100	98	104	116	116	132	132	144	158	174	191	191	212	--
Cotton					79	100	100	103	117	134	134	138	138	148	155	172	217	267	414	--
Groundnuts	104	104	92	92	92	104	100	104	125	146	146	161	171	171	212	250	308	308	--	--
Cassava	81	88	88	96	96	100	100	100	118	176	176	176	176							

LEGEND: -- indicates the value is negligible or zero.
A blank indicates the information is not available.

EXHIBIT B-4

COMPARISON OF OFFICIAL AND PARALLEL MARKET PRICES FOR RICE



RALANDIA (C)

THE MACROECONOMY

On February 1, 1986, as British Airway's flight 234 leveled off for the long flight across the Atlantic, Ralandia's Finance Minister, Justin Sephamla, stared into the night, deep in thought. He had just completed three days of meetings in Washington with officials from the International Monetary Fund (IMF). Since being appointed Finance Minister by President Kamande in 1981, Sephamla has been the key figure in negotiations between his country and the IMF.

Sephamla is a well-respected figure in international financial circles. A graduate of the London School of Business, he began his career in the World Bank's Young Professional program before returning home to become Research Director for the Central Bank of Ralandia. During his tenure at the Finance Ministry, Ralandia has undertaken four consecutive agreements with the IMF. Each agreement has run to its conclusion with the government essentially meeting stabilization performance targets. Fund officials in Washington credit this to the weight of Sephamla's voice in Ralandian decision-making circles.

As Sephamla looked out the window, a wry smile came to his face as he thought of his reputation as a 'responsible' financial manager. His recent mission to Washington concerned initial discussions with IMF officials about a fifth agreement between Ralandia and the Fund. Sephamla was contemplating the report he would soon draft to the President outlining the gist of his discussions with the IMF, the government's policy options, and his personal assessment of those options. It was at moments like these that Sephamla thought he should never have given up his career at the World Bank, for he was deeply torn about what to advise President Kamande.

Sephamla was firmly convinced of the necessity for further financial support from the IMF. When he came to office in 1981, Ralandia was in the midst of a mushrooming balance of payments crisis. Sephamla had concluded that generating a continued flow of external financial resources was the necessary first step to restoring Ralandia's economic health. Earlier than many, he realized the central gate-keeping role the IMF was likely to play in keeping external funds flowing. Unfortunately, as far as he could tell, that situation remained.

He knew that participation in another IMF program was necessary if Ralandia hoped to continue to expand its programs with the World Bank, the International Development Association (IDA), and the Western donors, and to again become a viable target for foreign investment. Moreover, as Sephamla thought over the current balance of payments numbers, he realized that only by continuing Ralandia's year-by-year debt reschedulings would a return to solvency be possible. Another agreement with the Fund would greatly improve Ralandia's fate at the Paris and London Clubs.[1] "No," Sephamla thought to himself, "we simply can't get on without the Fund."

"But can we live with them?" During his meetings in Washington, it had become depressingly clear that rather than rewarding Ralandian successes in meeting stabilization targets by easing off on the severity of conditionality requirements, Fund officials believed that only by further deepening stabilization measures could economic health be restored. To some extent, Sephamla agreed. Within the Ralandian cabinet he had pushed hard for a more rapid reform of the public administration and, especially, of the money-draining state-owned enterprises. Fund officials, however, seemed intent upon Ralandia's undertaking another large devaluation of at least 30% in order to prime the pump of Ralandia's flagging export sector. Sephamla could not understand this. Urban living standards had already been cut by a combination of wage-restraint and prior devaluations. How much longer could Ralandia avoid "IMF riots"?

More importantly, how could a further maxi-devaluation lead Ralandia back to growth? If growth was not forthcoming soon, how much longer would his colleagues, especially President Kamande, continue to take his advice on the importance of financial prudence? "No", thought the Finance Minister, "this time we can't knuckle under."

* * *

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[1]The Paris and London Clubs are associations of creditors. The Paris Club deals with debt contracted from public agencies, and the London Club with debt owed to commercial banks.

While Justin Sephamla's plane sped across the Atlantic, Joseph Rusisi, the President's Coordinator for Economics, was considering the next day's meeting with his advisors in Masunebi to discuss guidelines for a new loan program with the World Bank. In his prior position as Minister of Agriculture, Rusisi was the architect of Ralandia's agricultural liberalization efforts undertaken in cooperation with the World Bank. Like Sephamla, Rusisi had been brought into the government by President Kamande in 1981. His background includes a D.Phil. in economics from Cambridge, a short stint with Unilever Corporation in Nairobi, and several years as Sonny Ramphal's economic advisor in the Commonwealth Secretariat in London.

Rusisi is convinced that the time is ripe for expanding the government's policy reform efforts. The best institutional mechanism for so doing would be a Structural Adjustment Loan (SAL) Program supported by a substantial credit from IDA, the low-interest loan window of the World Bank. Rusisi has already negotiated a series of sector loans in agriculture, industry, and transportation. He has been informed privately that Bank officials might look favorably on a request for a more integrated program loan instrument.

In the meeting with his advisors, Rusisi wants to discuss the main benefits and costs of entering into a SAL agreement with IDA. He believes that a SAL would provide a major financial incentive for the government to move forward on economic reform in a coordinated way. It would also provide technical support from the Bank on how to do so, building on Bank experiences both in other African countries and elsewhere in the Third World. The SAL arrangement, however, does have risks. It would involve Bank officials much more directly in the policy process than had been the case in the past. It would also commit the government to meeting a set of policy reform 'targets' for continued disbursement of SAL funds.

Rusisi feels that the SAL's most significant danger might be to weaken his own role. It would identify him more directly with Bank technocrats who had little direct experience in Ralandia and no real understanding of its complex political dynamics. In order to minimize this possibility, Rusisi wishes to develop a long initiating memo to be sent to the Bank by President Kamande, outlining the set of issues and policies that a Ralandian SAL might address. This might serve to keep the initiative in the SAL process in

Ralandian hands. Rusisi himself has developed a memo that listed potential structural adjustment issues (Exhibit C-1). In the meeting, he wants to articulate the specific goals for each of these issues and develop proposals for specific policies.

* * *

Anthony Mapumba, Ralandia's Minister for Trade and Industry, recently returned from Lagos, Nigeria, where he attended the semi-annual meetings of the African Development Bank's (ADB) ministerial commission on industrial strategy. Mapumba is one of a small group of men who has been in every cabinet since President Kamande took power in 1975. Indeed, his connections with the President go back to the days of opposition to the Nkisane regime. He was given leave of absence, shortly after the revolution, to take his Masters in development studies from the Center for Development Studies in England.

While in Lagos, Mapumba followed with great interest the Nigerian government's deliberations about stabilization options, what to do about their enormous foreign debt, and how to relate to the International Monetary Fund. The Nigerian Minister of Industry, also on the ADB commission, shared with Mapumba his views on tying the repayment of debt to revenues earned from international trade. He favored limiting debt servicing payments to a set percentage of export earnings in order not to starve industry of absolutely necessary imported inputs. Mapumba was impressed by the way in which the Nigerian leadership encouraged an open public debate on these issues, and by the overwhelming response of the population in favor of a locally-coordinated strategy of stabilization that avoided loss of sovereignty to the IMF.

Since returning from Nigeria, Mapumba has thought over what lessons there are in the Nigerian experience for Ralandia. While not overplaying the similarities in the two countries' situations, Mapumba believes that it is very important that President Kamande consider the possibility of limiting the role of the international financial institutions in Ralandia's economy. Mapumba knows one thing for sure: in the name of stabilization, the IMF is strangling Ralandian state-owned industries by precluding the purchase of necessary inputs. He feels strongly that this must end. Tomorrow he will meet with President Kamande to discuss this position.

* * *

President Peter Kamande re-read the letter he had just received from the Secretary-General of the Organization for African Unity (OAU). As part of the OAU's preparation for the forthcoming special session of the United Nations General Assembly on Africa's Economic Crisis, the Secretary-General has asked all African Heads-of-State to submit up-to-date details of their governments' strategies for economic stabilization and recovery. The Secretary-General stressed the point that the African caucus at the UN is going to ask the industrialized nations for $50 - 100 billion in additional assistance during the next five years. In order to make this request credible, the OAU feels that it is imperative to be able to show that the individual African countries are committed to active strategies for economic rehabilitation. Given Ralandia's active participation in pan-African affairs, President Kamande's outstanding reputation as a progressive African leader and Ralandia's history of constructive relations with all of the international institutions, the Secretary-General indicated that the details of the Ralandian plan are of particular importance.

Kamande sat back in his chair and thought for a moment. He noted that the Secretary-General's comments had avoided any mention of the importance of Ralandia's actual economic performance. While the Central Bank's yearly report is not yet completed, Kamande knows that the overall picture will be no cause for celebration. Is this the result of all of the risks he has taken, of not only reaching agreements with the IMF, but meeting targets? Of initiating a liberalization program in agriculture that basically dismantled the very institution on which he had put all of his hopes for rural development? Of reestablishing closer ties to the British government? "But," thought Kamande, "I guess that is the meaning of underdevelopment."

EVOLUTION OF RALANDIA'S MACROECONOMY

Independence-1976

After independence, the Nkisane government followed a cautious and conservative macroeconomic policy. They sought to maintain a close balance between imports and exports, between government revenues and expenditures and coordinated monetary policy with the British Exchequer. Foreign investment was encouraged as the main engine of investment through both tax incentives and a liberal profit repatriation policy. In the 1960s, the international environment was conducive for growth, providing both an expanding market for exports and increasing volumes of direct foreign investment. Ralandia performed relatively well in these circumstances, achieving real growth in GDP of 2.3% per year during the 1960s. Given the population growth of about 2% per year this allowed Ralandia to achieve modest increase in per capita income.

In the final years of the Nkisane regime, the early 1970s, economic performance began to deteriorate. Between Nkisane's fall and the consolidation of power by Peter Kamande, a great uncertainty gripped the nation and economic deterioration continued. This was further reinforced by the oil shock of 1973-1974, which generated inflationary pressures into the Ralandian economy and limited the capacity to import non-petroleum goods. Ralandia's GDP essentially stagnated between 1973 and 1976. Industry was particularly hard-hit, as foreign investors began to run down their assets and ceased to expand their capacity due to the uncertainty of the political and economic environment. Agricultural output grew less than 1% during those years, while the country's population increased by about 10%. Inflation during this period was 40%, a large increase over the previous period. Most of the inflationary pressure was attributable to the effects of increased oil prices.

Substantial policy changes were introduced in the years immediately following the revolution. While Kamande continued to maintain a balance between imports and exports, he created a series of administrative mechanisms to give government much greater involvment in both sectors. Indeed, administrative bottlenecks were one source of the major drop-off in imports during these years. Export earnings stagnated, largely due to the recession in Europe.

The biggest policy changes introduced in this period concerned the role of foreign capital and the role of the public sector. The government dramatically narrowed the possiblities for profit repatriation by foreign firms, and the Central Bank ceased its practice of converting profits of foreign firms into foreign exchange. Concurrently, the role of the public sector was transformed. Public spending rose dramatically as the new regime (1) initiated a subsidy to consumers of rice; (2) increased spending on social services; and (3) began the large-scale nationalization of industrial and trading enterprises. In addition, the Ralandian government ceased coordinating its monetary policy with Britain.

1977 - 1980

This period saw the initiation of the "Race to 2000 Campaign", the main element of which was a massive investment program that had a dramatic impact on Ralandia's macroeconomic framework. "Invest at all costs" was the catch-phrase of the Campaign.

Ralandia's external economic relations changed dramatically under the impact of this policy. During this period, imports grew by nearly 50%, while exports increased by only 2.3%. This was financed by a combination of a dramatic running down of the country's foreign exchange reserves from $69 million in 1977 to $5 million in 1979, and a massive increase in external borrowing. Ralandia's external debt outstanding, public and private, increased from $976 million in 1978 to $2.2 billion by 1981, a substantial portion of which was at commercial rates. During these years, the government lost control over the accumulation of debt as it devolved authority for borrowing to individual ministries and parastatals. The debt service ratio, which before 1977 was less than 5% of export earnings reached over 50% by the early 1980s. Exhibits C-2 and C-3 show the evolution of the balance of payments and the monetary situation.

In addition to rapidly expanding imports and foreign borrowing, the "Race to 2000 Campaign" involved a major expansion of public investment and spending. Government expenditures soared as a result of a massive program of investment in state-owned enterprises, expansion of schools and health care facilities, and a large increase in the number of public employees. Expansion of government revenues fell substantially behind the expansion in expenditures. By 1980, expenditures were almost double the value of revenues; the budget deficit had reached 18% of GDP.

In spite of the massive increase in imports, the huge rise in foreign borrowing, and the government's public investment program, Ralandia achieved only very modest levels of economic growth during this period: slightly over 3% per annum. The bulk of this was in public administrative services and industry. Agricultural production grew at less than 3% annually.

As a result of the "Race to 2000 Campaign", State-Owned Enterprises (SOEs) became the key economic institutions outside the agricultural sector and were given responsibility for distribution and processing of agricultural output. The SOEs were either nationalized versions of former private enterprises or had been created as part of the investment campaign. In general, the SOEs were given official monopoly status and privileged access to the nationalized banking system. In order to encourage investment, bank lending rates were kept lower than the rate of inflation, allowing the SOEs to borrow on very favorable terms, but discouraging savings. Domestic credit increased by 41% annually during this period through the expansion of the money supply. Given easy access to cheap money, the autonomy to borrow abroad, plus monopoly status, the public enterprises had little incentive to perform efficiently. By the early 1980s only 10% of the domestic loans given to SOEs were being paid back on schedule.

Between 1975 and 1978, the Ralandian Central Bank continued to operate cautiously. But during the "Race to 2000 Campaign", the Bank rapidly increased the money supply, both exacerbating domestic inflation and causing the rala to be increasingly overvalued in relation to the major global currencies. During this period, the official exchange rate for the rala remained fixed against the pound. From 1978 to 1980 its overvaluation increased by nearly 20% (Exhibit C-4).

Agriculture was relatively neglected during this period, and specific policies discouraged production. The government's decision to subsidize rice to consumers led to low prices for paddy, in order to minimize the margin between consumer and producer prices. At the same time, in order to generate revenues, the government increased tax rates on exports. These policies led producers to shift out of exports and to seek out the parallel market to sell their surplus production. SOEs had been given responsibility for purchasing and delivering inputs. A combination of financing and organizational problems led to insufficient and badly timed input supplies.

<u>1981 - 1985</u>

By 1981, it was becoming evident to Ralandian officials that the results of the "Race to 2000 Campaign" were very different from those its architects had hoped for. With the drying-up of foreign commercial lending due to the international recession and the end of the grace period for the loans begun two years earlier, the government found itself facing a burgeoning balance of payments crisis. Ralandia's foreign reserves were negligible, and export receipts could not begin to meet both the needs of debt service and provide foreign exchange to purchase imports. President Kamande appointed Justin Sephamla as the new finance minister. Sephamla immediately began negotiations with the IMF for Stand-By credits to meet the balance of payments challenge.

Although Ralandia had participated in IMF programs in the 1970s, these did not have a major impact. Targets were not met and the programs were not completed. External credit on easier terms was available, and Ralandia's external account never faced a severe problem. When Sephamla began negotiating with the Fund in early 1981, the IMF proposed a wide range of stabilization measures including realigning the exchange rate, slowing the growth of domestic credit, diminishing the government deficit, decreasing imports, increasing savings and slowing investment.

In 1981, Ralandia signed an agreement with the Fund initiating a series of macroeconomic changes. The rala was no longer to be fixed to the pound but was to be fixed against a basket of international currencies weighted by their proportion of Ralandia's foreign trade. The agreement set sharp restraints on the expansion of the money supply in order to reduce the rate of inflation. It also set limits on government borrowing and committed the government to increase the interest rate in order to encourage domestic savings and discourage uneconomic investment. Fund officials saw a major source of Ralandia's difficulties as the low level of domestic savings in the face of the high level of investment.

To diminish the budget deficit, the government agreed to curb its spending by limiting the expansion of government employment, limiting wage increases, and decreasing the subsidy for rice (increasing consumer prices). Unwilling to actually cut back employment, they decreased spending for non-salary items and cut back local as well as import expenditures for many of the externally financed projects which they had begun in the late 70s.

In the 1981 Agreement, the IMF made 100 million SDRs[2] available to Ralandia for balance of payments purposes. The Ralandian government successfully met the targets in the Fund program, which was a major factor in their ability to reschedule their debts with both the London and Paris Clubs in 1982. These agreements essentially lowered Ralandia's debt service ratio by extending the repayment period.

In 1983, after the completion of the first IMF agreement, Sephamla immediately negotiated a second program. In the second agreement the IMF focused attention on the exchange rate because the overvaluation of the rala had worsened during the period of the first program; it also set targets for diminishing rice imports and limiting borrowing by SOEs. In the context of the second agreement, the Ralandian government initiated the first of what was to be a series of devaluations of the rala. They continued the policies of 1982 which limited government spending, controlled inflation, and decreased imports. In addition, liberalization of the rice sector, which included ending the subsidy for rice (even imports), gave further relief to the budget and was the first step toward encouraging private sector involvement in the economy.

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[2]SDRs, Special Drawing Rights, are an international money, created by the IMF, which can be used to settle international debts between monetary authorities. The value of an SDR is fixed against a bundle of currencies.

The government's response to the economic crisis extended beyond seeking help from the IMF. President Kamande believed that the recent crisis was caused at least in part by a lack of coordination within government. To improve this situation, in 1984 he created the position of advisor on economic coordination, to which he appointed Joseph Rusisi. One of Rusisi's first recommendations was to create a committee within the Council of Ministers which would be responsible for coordinating government decisions about investment in all sectors.

By the end of 1984, Ralandia had successfully completed three IMF Stand-By Agreements, which had had a significant impact. Inflation was successfully under control, the series of nominal devaluations had led to a real devaluation of 20%, and returned the real effective exchange rate to its 1977 level. The budget deficit was reduced to a quarter of budget revenues, under 5% of GDP. The current account balance,[3] while still a problem, was no longer in the precarious position of several years earlier. Output in the economy, however, was stagnating; in 1984, real per capita GDP was only 91% of its 1980 level.

Recognizing the need to revitalize the industrial sector, without jeapordizing the macroeconomy, the Minister for Trade and Industry undertook negotiations with the World Bank for an industrial sector loan. The program he proposed to the Bank included progressive liberalization of prices in certain industries and a reform of administrative procedures for raising prices of goods produced by State-Owned Enterprises. Whereas formerly, the Ministry might take up to eight months to reply to a request to raise prices, now it was required to respond within 30 days, or the enterprise could raise its price without authorization. In early 1985, prices were liberalized for products making up about 35% of industrial value added. In late 1985, the list was expanded to include an additional 25% of industrial value added.

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[3]Exports, imports and financial transfers from abroad are included in calculation of the current account balance.

Despite the devaluations, export earnings have not grown significantly, and Ralandia has not added any products to its list of exports in many years. Several ministers feel that the current administrative controls and remaining export monopolies for SOEs are a severe constraint to increasing exports. Rusisi has received several complaints from businessmen that their attempts to export small volumes of new products, both agricultural and non-agricultural, were thwarted by the long delays involved in getting export licenses. During cabinet discussions, Rusisi has pointed out that the current regulation limiting retention of foreign exchange by exporters to 5% of earnings (the rest must be converted to ralas at the official exchange rate) gives little incentive to potential exporters. Proposals for reforming the administrative system of authorizing exports have been discussed during several recent cabinet meetings.

The government currently does not allow foreign exchange to be traded freely. Foreign exchange earnings must be deposited with the Central Bank, which has a "foreign exchange allocation committee" responsible for distribution. Ministries, State-Owned Enterprises, businesses and individuals must apply for foreign exchange through the committee and purchase it at the official rate in exchange for ralas. Allocation of foreign exchange is based on the previous year's distribution, marginally adjusted.

Among the biggest disappointments of the "Race to 2000 Campaign" was the performance of the 170 State-Owned Enterprises. In response, the government has begun to promote domestic private enterprise and to try to attract foreign investment. As part of this effort, SOEs have lost their privileged access to loans and to foreign exchange. In addition, the government is allowing private enterprises to compete with the SOEs in several sectors. However, the development of the private sector is severely hampered by the credit crunch of the stabilization program.

The government has begun a case-by-case effort to improve the efficiency of the SOEs. To date, five have been restructured. The greatest success has been Air Ralandia: In less than two years, it was transformed from a net drain on the government budget to a profit-earning organization by divesting itself of non-air services, pruning loss-making routes, rehabilitating infrastructure and equipment, raising fares, and enforcing payment by government organizations.

In 1985, a liberal foreign investment code was announced, allowing repatriation of profits and providing tax incentives. At the same time, Ralandia signed an agreement with the Overseas Private Investment Corporation of the United States which was designed to encourage American firms to invest in Ralandia by insuring against losses for political reasons.

EXHIBIT C-1

MEMORANDUM

TO: Staff

FROM: Joseph Rusisi, Economic Coordinator

DATE: January 20, 1986

SUBJ: Issues to be Considered in Discussing a Structural Adjustment Program with the World Bank

The following is a list of topics to be considered for inclusion in an initiating memo from President Kamande to the International Development Association, Washington, proposing a Structural Adjustment Loan. We need to generate specific goals and policies relating to these issues and to others you may wish to add to this list.

A. export promotion

B. foreign exchange allocation

C. reform of State-Owned Enterprises

D. information monitoring and retrieval

E. taxation

F. administrative reform

G. transportation

H. debt management

EXHIBIT C-2

BALANCE OF PAYMENTS SUMMARY
(US $ million)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Exports, goods, NFS	202.6	223.7	237.2	293.1	366.7	329.3	413.3	439.6	495.5	523.9	391.6	378.6	363.5	388.7
Merchandise exports, FOB	147.4	166.1	200.3	247.4	319.3	288.7	366.6	405.1	413.7	436.3	323.5	329.1	318.5	333.3
Imports, goods, NFS	-248.7	-241.0	-275.4	-360.5	-471.1	-404.2	-463.5	-553.1	-928.9	-1074.8	-734.6	-651.7	-580.3	-502.5
Merchandise imports, FOB	-177.5	-168.3	-177.6	-238.7	-331.5	-261.5	-325.7	-386.5	-662.4	-764.3	-510.8	-451.5	-399.7	-352.1
Trade Balance (Exports FOB & Imports FOB)	-30.1	-2.2	22.7	8.7	-12.2	27.2	40.9	18.6	-248.7	-328.0	-187.3	-122.4	-81.2	-18.8
Net factor service income from abroad	-36.1	-35.9	-31.0	-28.8	-44.9	-40.9	-16.3	-33.8	-56.8	-44.0	-88.3	-94.6	-106.3	-141.8
Private unequited transfers	--	--	--	7.5	--	3.3	--	8.0	7.1	3.8	4.0	-1.4	-1.2	3.5
Current Balance	-27.1	34.7	-10.7	-64.4	-70.4	-76.6	-22.2	-113.9	-441.9	-591.1	-427.3	-369.1	-334.3	-252.1
Net Capital and Monetary Transfers	31.1	-28.2	22.6	40.8	46.1	26.6	55.8	68.8	385.0	548.5	364.7	296.8	260.5	--
External Public Debt														
Debt Outstanding (including undisbursed)	150.0	157.2	208.5	239.7	378.9	427.1	546.7	976.1	1612.2	2156.2	1735.5	--	--	--
Disbursements	110.1	94.5	120.9	140.5	234.1	260.7	330.6	428.9	819.1	1352.4	1322.1	1532.0	1732.6	1853.4
Principal repayments	6.2	6.3	9.3	6.8	8.2	8.5	8.0	-11.8	-18.0	-33.8	-76.3	-110.4	-183.9	175.4
Interest repayments	2.7	2.4	3.6	3.5	4.2	4.5	4.9	7.3	-16.4	-25.9	-42.9	--	--	--
Debt Relief	--	--	--	--	--	--	--	--	--	--	-75.9	-89.5	-34.8	-222.6
Annual Financing														
Net from IMF	1	--	--	3.7	2.1	--	--	-3.1	-0.9	44.0	38.6	57.2	6.9	18.3
Banks	--	--	--	--	--	--	--	--	6.1	6.6	-21.3	-26.3	-0.3	-11.4
Arrears, consolidated arrears	--	--	--	--	--	--	--	--	--	296.3	25.8	2.9	74.4	-9.2
SDR allocations	--	3.0	--	--	--	--	--	--	4.7	4.7	4.0	--	--	--
Trust fund	--	--	--	--	--	--	--	13.3	--	20.4	--	--	--	--
Other	--	--	--	-19.5	--	-4.6	--	-10.2	-45.2	-72.9	3.6	82.6	-44.5	43.8

LEGEND: -- indicates the value is negligible or zero.
A blank indicates the information is not available.

EXHIBIT C-3

MONETARY SURVEY
(billions of ralas)

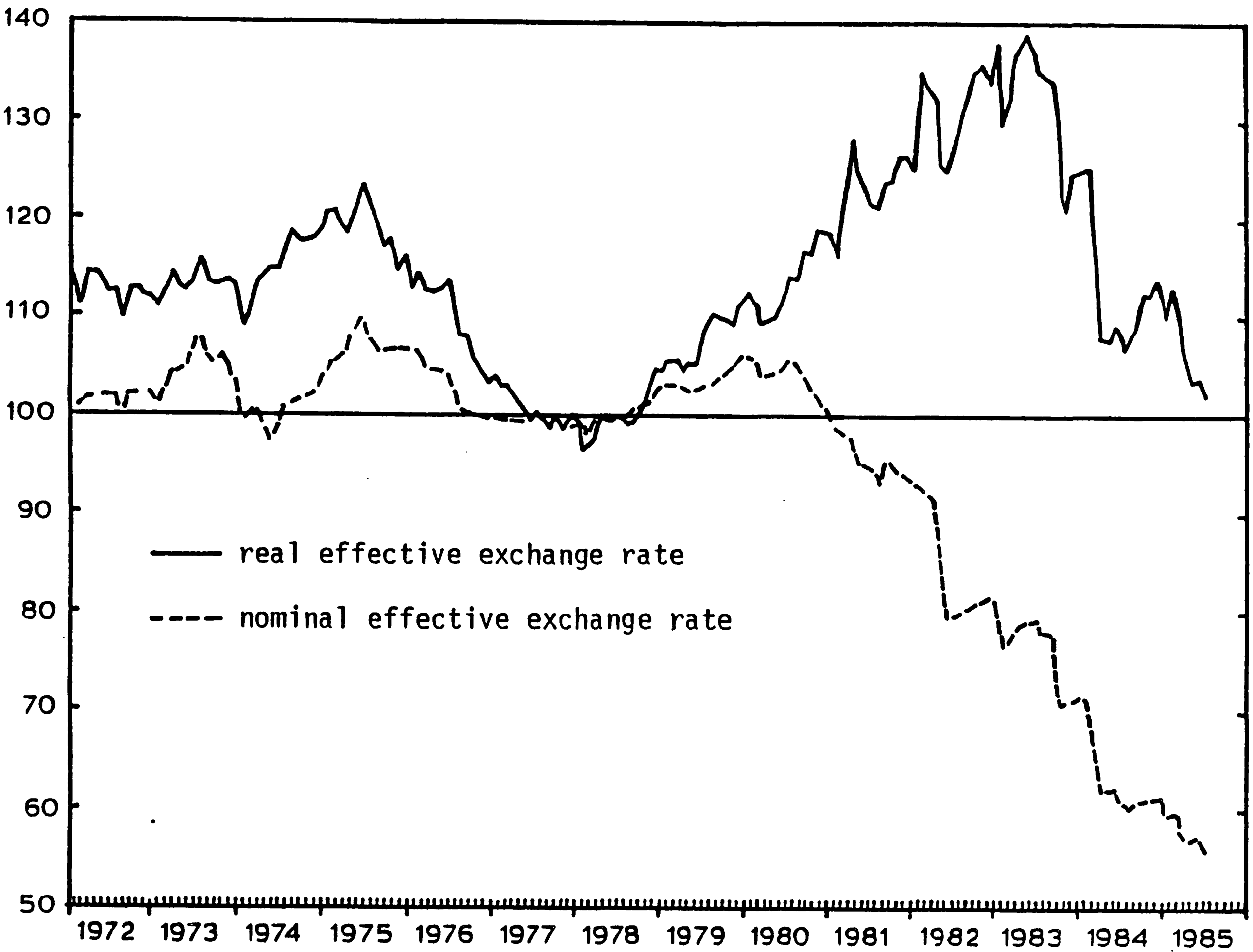
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Domestic Credit	50.6	62.3	61.6	82.8	90.8	101.6	124.4	142.3	208.2	340.1	413.2	483.9	458.1	640.2
Net Credit to Government										181.1	240.8	268.5	306.6	340.0
Credit, Private										159.0	172.4	215.4	241.5	300.2
Broad Money (M2)	47.0	68.2	71.5	85.3	87.0	100.0	121.6	136.3	174.0	206.0	249.8	275.4	271.4	321.1
External Position (net)	3.5	10.1	10.9	12.9	12.3	12.2	18.7	-0.6	45.1	125.2	158.6	255.4	405.6	562.1
Short-term Foreign Liabilities	-1.3	5.4	6.5	8.9	8.9	9.4	16.4	-3.4	15.9	93.4	49.8	110.9	121.4	174.4
Long-term Foreign Liabilities	4.8	4.7	4.4	4.0	3.4	2.8	2.3	2.8	29.2	31.8	108.8	144.5	282.8	387.7
Rescheduled Agreements	--	--	--	--	--	--	--	--	--	--	49.9	87.5	193.1	301.4
Other Liabilities (net)	-0.2	5.6	3.4	5.9	7.0	4 .2	-0.1	15.6	18.1	8.9	4.8	-46.9	-127.5	-244.9
Devaluation Adjustment	--	--	--	--	--	--	--	--	--	--	--	-55.1	-108.6	-200.7
International Reserves		52.2	67.9	49.4	35.6	42.2	68.9	59.2	5.0	9.1	26.5	20.0	29.2	58.9
SDR's		9.5	10.5	0.2	1.1	2.2	8.3	11.3	--	--	0.3	1.3	0.1	1.5
Reserve Position in IMF		5.5	6.1	--	--	--	--	--	--	--	0.4	1.3	--	--
Gold & Foreign Exchange		37.3	51.3	49.2	34.5	40.0	60.6	47.9	5.0	9.1	25.8	17.4	29.1	57.4
IMF Position														
Quota		28.2	31.4	31.8	30.4	30.2	31.6	44.3	43.9	66.4	60.1	56.3	71.0	68.1
Drawing Outstanding		--	--	10.4	22.6	22.5	25.1	23.5	14.0	32.9	29.9	28.0	26.7	23.4
Oil Facility Drawings		--	--	4.2	16.7	16.6	7.6	7.2	5.7	13.4	52.9	83.4	91.6	106.5
Use of Fund Credit		--	--	4.2	16.7	16.6	19.0	17.5	12.8	55.9	88.2	139.7	142.3	154.8

LEGEND: -- indicates the value is negligible or zero.

A blank indicates the information is not available.

EXHIBIT C-4

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES
(1972-1985)



NOTES: 1978 = 100
Decline indicates depreciation.

PUBLICATION NOTE

This coming fall (fall, 1986), CRED will publish the final version of the following set of case studies as the first in the new **CRED Case Studies Series**. This set will be published in both English and French, and will be available in early September for classroom use, at a cost of approximately $4.25, postpaid. **Please note: This work is copyrighted; no part of it may be reproduced or transmitted in any form or by any means, including photocopying.**

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