Annex 1

Clearing Multilateral Arrears: the Experiences of Peru and Zambia

Zambia was the first country to benefit from the IMF's new arrears clearance procedure, with a "Rights Accumulation Programme" of SDR 837 million in April 1991, though it had to repay $125 million of IMF arrears using aid to make RAP feasible. It cleared World Bank arrears up-front with conventional methods: donor aid ($120 million) and a Bank of England bridging loan ($200 million) in March 1991. Peru used new procedures with both the World Bank and the IMF. From July 1991, the World Bank applied its new arrears strategy to Peru: during February-June 1992, the Bank approved three adjustment loans totalling $1 billion. In September, the IMF Board approved a RAP of SDR 610 million.

The two countries have had very different experiences of these approaches. Peru made rapid progress in implementing the conditions in the Fund and Bank programmes. By December 1992, Peru successfully completed the RAP and the Bank's adjustment conditions, and in March 1993 it became the first country to clear multilateral arrears using the "Strengthened Cooperative Strategy". For this, it used funds from the US Treasury and Japan's Eximbank (and a Peruvian contribution of $10 million) to clear Fund arrears. The Fund then disbursed its RAP funds and the first tranche of an Extended Facility loan, most of which were used to clear World Bank arrears. Disbursements from the World Bank programme loans were then used to repay the US and Japan. Zambia's experience has been less positive. Its RAP had to be formally revised in 1992 after the 1991 programme collapsed; at the same time, it went back into non-accrual status with the World Bank and had to use a commercial bank loan ($51 million) to clear the new arrears in January 1992. Under the new programme, accumulation has been waived for two quarters out of five. At the current rate of accumulation, its RAP will last 4 years. The explanations lie in the design of the RAPs, the implementation of adjustment policies, and exogenous factors (notably flows of external finance).

The design of the two RAPs were very different. First, the Peru programme was considerably shorter than the Zambian (18 months compared to 36 months for the RAP; 27 months compared to 45 months including the pre-RAP Fund-monitored programme). In turn this reflected a lower amount

From: Multilateral Debt: An Emerging Crisis?
FONDAD, The Hague, 1994, www.fondad.org

of arrears compared to quota (200% compared to 300%), and Peru's better adjustment record during the 9-months pre-RAP period. Second, Zambia's programme was less growth-oriented in design and outcome. Though both programmes foresaw 3% annual GDP growth, the Peruvian programme envisaged steep increases in external financing and imports (compared to the previous non-adjustment period); while Zambia's envisaged falling imports and net external finance.

The Peruvian government showed incredible commitment to the programme, implementing all of the IMF targets, and World Bank structural measures 3 months ahead of schedule. The Zambian government failed to implement many of its IMF targets and World Bank structural adjustment conditions in 1991: this partly reflected the holding of multiparty elections. The new government has been strongly committed to adjustment and made major progress on adjustment, but with limited results on stabilisation.

The external financing of the programmes demanded of donors differed dramatically in size. For Peru, a Support Group in 1991 provided $422 million for 1991 and $500 million for 1992, compared to imports of $3.5 billion and $3.8 billion. Japan provided almost all of these funds, followed by the US, the Netherlands, Switzerland, Sweden and France. Zambia's programme was much more dependent on donor aid: $750 million a year for 1991 and 1992. Both countries suffered shortfalls in donor disbursements. However, due largely to unexpected factors, the Peruvian programme turned out overfinanced. Reserves rose by $1 billion during 1990-93 and GDP grew by 3% in 1992, largely due to somewhat unexpected inflows of private transfers (returning flight capital and investment in privatisation) totalled of $2.7 billion in 1991-92. These offset small shortfalls in donor flows in 1992. Though donors (including the World Bank) made an exceptional effort to disburse, particularly in the first quarter of 1991, Zambia's aid disbursements subsequently fell more than $50 million short in each year, and there have been no offsetting private sector inflows.

This vulnerability of the Zambian programme to shortfalls in donor flows – which were themselves partly due to uncertainty about the implementation and results of adjustment – indicates that methods of clearing multilateral arrears which rely on donor flows to offset negative transfers to the Fund are inappropriate for low-income countries where adjustment policies have less catalytic effect on private sector flows. Additional measures to reduce interest charges and refinance current service to the IMF may be especially necessary in low-income countries.

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