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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/62

10:00 a.m., April 23, 1984

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	G. Ercel, Temporary
	X. Blandin
	J. Delgadillo, Temporary
R. D. Erb	J. C. Williams, Temporary
M. Finaish	
	T. Yamashita
J. E. Ismael	
	L. Leonard
	D. I. S. Shaw, Temporary
	C. Robalino
	D. Hammann, Temporary
	C. P. Caranicas
R. N. Malhotra	
	J. E. Suraisry
	T. de Vries
	K. G. Morrell
	A. A. Agah, Temporary
	E. I. M. Mtei
	J. A. K. Munthali, Temporary
	E. Portas, Temporary
	A. K. Juusela, Temporary
	T. A. Clark
	Wang E.

L. Van Houtven, Secretary
B. J. Owen, Assistant

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Also Present:
African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; R. J. Bhatia, Deputy Director; N. Abu-zobaa, A. Basu, F. d'A. Collings, C. Enweze, C. J. Hoban, G. Kalinga, M. Sidibé. Exchange and Trade Relations Department: S. Kanesa-Thasan, M. G. Kuhn, R. K. Rennhack. External Relations Department: S. Nawaz, Z. Zhang. Fiscal Affairs Department: A. H. Mansur. Legal Department: A. O. Liuksila, J. M. Ogoola. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, H. A. Arias, C. J. Batliwalla, J.-C. Obame, Y. Okubo, I. R. Panday, D. I. S. Shaw. Assistants to Executive Directors: M. Camara, M. B. Chatah, C. Flamant, V. Govindarajan, A. Koné, D. J. Robinson, M. Rasyid, C. A. Salinas, A. A. Scholten, Shao Z., S. Sornyanyontr, M. A. Weitz, J. C. Williams.

1. REPORT BY MANAGING DIRECTOR

The Managing Director said that, as was customary, he had attended the meeting of the UN Administrative Committee on Coordination (ACC), held in London on April 16 and 17, 1984. Following the usual presentation by the Secretary-General of the United Nations, Mr. Pérez de Cuéllar, of his views on current world political affairs, he himself, like other heads of agencies in the UN family, had presented his views on the problems of the international financial system and of the Fund.

An additional rather more special and private session had then been held, the Managing Director continued, based on an interesting report by the head of the United Nations Institute for Training and Research (UNITAR) on the possible causes of the deteriorating image held by the public, the media, and in certain government circles as well, of some UN institutions. Several conclusions had been drawn at the end of the discussion by Mr. Pérez de Cuéllar. The first was that an institution had constantly to demonstrate its usefulness and effectiveness; it could never take itself for granted. Second, the caliber and efficiency of the management and staff of an international organization had to be impeccable; indeed, he would himself go so far as to say that it should surpass that of other organizations because of the need to be responsive to critical challenges and demands by the membership for the best possible service. Third, it was necessary at the same time for management and staff, and for member governments themselves, to avoid all forms of politicization in their dealings with each other. An interesting exchange of views had also taken place on the need to try to reach consensus decisions, and to avoid imposing decisions on the membership of an institution, either because a majority took advantage of a one-country/one-vote system to frustrate the ability of a small number of large countries that were major contributors to have an appropriate say, or because of larger members, in an institution where voting was weighted according to financial shares, were insensitive to the needs of smaller members.

Another principle that he had mentioned, the Managing Director added, was that the various institutions of the UN system should support rather than criticize each other. A constant preoccupation, as the Fund well knew, was how to fend off public criticism by increasing public knowledge and understanding of the objectives of all UN agencies. Yet, as those in the United Nations who were most closely concerned with public relations had warned, there were limits to the effectiveness of public relations activities in the face of determined and persistent public criticism.

In response to a request by Mr. de Vries, the Managing Director remarked that he would inquire about the availability of the report prepared by UNITAR for the discussion at the ACC meeting.

To conclude, the Chairman mentioned that he had dined, in the company of other heads of UN agencies, with the Prime Minister, Mrs. Thatcher, with whom he had conversed at length on Fund matters. He had also been invited to a private luncheon by the Chancellor of the Exchequer. In Paris, he had met the Governor of the Bank of France.

2. THE GAMBIA - STAND-BY ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered a request from The Gambia for a stand-by arrangement in an amount equivalent to SDR 12.83 million, or 75 percent of its quota of SDR 17.1 million, together with a proposed decision on the exchange system (EBS/84/68, 3/27/84; and Cor. 1, 4/19/84).

Mr. Mtei made the following statement:

The economic and financial stabilization program for which Fund support is requested seeks to reduce internal and external imbalances, including the elimination of arrears over the medium term.

Following the successful completion of the one-year stand-by arrangement approved by the Executive Board on February 22, 1982, it was clear to the Gambian authorities that the fundamental problems facing the economy, rooted in structural rigidities, would require a continued adjustment effort over a longer period. They felt at the time that the one-year arrangement should lay the basis for a medium-term program in order to address the rigidities inherent in the narrow production base of the economy and overdependence on rain-fed agriculture. The economy continues to rely heavily on groundnut production for export earnings, a crop for which the terms of trade had deteriorated sharply in 1981/82 and 1982/83. Thus, despite the success achieved in stimulating production, with real output growing by 7.7 percent in 1981/82 and 10.5 percent in 1982/83, the balance of payments continued to be under pressure, culminating in the emergence of external payments arrears amounting to the equivalent of SDR 41.2 million at the end of 1983/84. Furthermore, the recurrence of adverse weather conditions in 1983/84 resulted in a decline of agricultural production and virtual stagnation in economic activity. In particular, food production was estimated to have declined by 40 percent and groundnut purchases were estimated to have declined by 20 percent during the same year. Consequently, government finances came under renewed pressure, as revenue fell short of expectations at a time when expenditures were increasing.

Against this background, the authorities undertook to implement the current adjustment program within their ongoing diversification efforts enunciated in the Second Five-Year Development Plan 1981/82-1985/86. While still emphasizing the promotion and diversification of agricultural production, the plan also seeks to encourage investment in manufacturing, tourism, and fishing. A number of specific projects in agriculture are already under way with the support of the World Bank and other donors. During the program period, total investment outlays have had to be scaled down in line with available external financing and the need to avoid exacerbating the debt service problem. Meanwhile, producer pricing policy will continue to support these diversification efforts. To this end, the authorities plan to raise the producer price of cotton and rice by 20 percent and 10 percent, respectively, by end-June 1984. They have also undertaken to review these prices constantly in order to take into account changing circumstances. It is in this regard that the producer price of groundnuts has had to be reduced in order to reflect the depressed world prices that have prevailed in recent years and to reduce the heavy financial losses of the Gambian Produce Marketing Board (GPMB) resulting from very high producer prices. As regards retail prices, the authorities remain committed to pursuing a flexible approach. They have raised the wholesale price of imported rice by 14.6 percent on February 27, 1984.

The financial program provides for specific measures that should reduce internal and external imbalances in the short run. In fiscal policy, the objective is to reduce the overall deficit from 9.4 percent of GDP in 1982/83 to 6.1 percent in 1984/85. To achieve this goal, the authorities are implementing measures aimed at raising additional revenue and containing growth in expenditure. On the revenue side, an overall increase of over 28 percent was anticipated in the 1983/84 budget. This increase was expected to come from, among others, new tax measures yielding about D 6.1 million, the effect of exchange rate adjustment on taxes related to foreign trade amounting to D 8.2 million, the imposition of a new surcharge on petroleum products expected to yield D 1.5 million, and the collection of tax arrears from GPMB amounting to D 8 million. Details of further revenue-raising measures are being worked out and will be discussed with the staff during the next mission to Banjul.

The program emphasizes expenditure restraint as clearly shown in the memorandum of understanding annexed to the staff report. It will, therefore, suffice to note here that for the remainder of the 1983/84 fiscal year, the authorities have undertaken to limit the approval of supplementary appropriations to no more than D 1.3 million. In addition, specific areas have been identified where savings amounting to D 2.2 million could be made. Furthermore, quarterly allotments are to be closely monitored to ensure that the fiscal targets are met.

The monetary and credit policies are also consistent with and supportive of the balance of payments objective. The growth of total domestic credit will be reduced. In particular, credit to the Government will be reduced from the equivalent of 3.9 percent of GDP in 1982/83 to 1.6 percent in 1984/85. Interest rates remain generally positive following a 2 percentage point increase in deposit rates.

In the external sector, the program envisages a significant reduction in the current account deficit from the equivalent of 29.5 percent of GDP in 1982/83 to 16.3 percent in 1984/85. To this end, the authorities devalued the dalasi by 25 percent on February 28, 1984. They believed that the devaluation, coupled with other measures already in place, would contain domestic demand, encourage domestic production of goods and services for export, and result in a modest surplus in the balance of payments in 1984/85 despite a leveling off in net capital inflows. The expected improvement in the external payments position would facilitate the reduction of arrears. The authorities are aware of the rising debt service obligation and the problems associated with it. They have therefore indicated that they would pursue a cautious external borrowing policy. Accordingly, they have shelved some development projects that were originally supposed to be financed through commercial bank borrowing.

Finally, I should reiterate that the Gambian authorities have shown determination to deal with the problems facing the economy by taking a wide range of decisive and strong measures. Their track record is good. The prior actions now in place are a manifestation of their determination to implement the current program successfully. The staff has confirmed that the program is sufficiently strong to deserve the support of the Fund. It is also worth noting that the level of access is justified by the measures already in place, while The Gambia's use of Fund resources has so far been limited. I therefore urge Directors to support the decision appearing on pages 22 and 24 of the staff report.

Mr. Clark said that he supported the proposed decision. The Gambia had made considerable progress under the previous stand-by arrangement, in the face of external difficulties and domestic political problems. The most striking successes had been the increase of 19 percent in real GDP between 1981 and 1983, and the reduction in the current account deficit--by 16 percentage points of GDP--from the extraordinarily high figure of 46 percent. Nevertheless, the Gambian economy continued to suffer from a number of serious and deep-rooted problems, notably low per capita income, heavy dependence on one export commodity--groundnuts--and a large external debt. It was therefore unfortunate that some of the progress under the past arrangement had since been eroded, in part owing to the drought but also owing to an expansionary fiscal policy. The resulting balance of payments pressures had led to a large buildup of payments arrears.

The proposed program included welcome measures to put the economy back on track, Mr. Clark observed. The Gambian authorities were to be commended for the actions already taken, in particular the 25 percent devaluation of the dalasi and the measures to reduce the fiscal deficit. Even so, the imbalances in the economy remained large. The burden of external debt, which was estimated to equal one year's GDP in 1983/84 and a quarter of which represented arrears, left little room for maneuver. The low level of reserves, which would equal on average two weeks' exports during the program period, was also in stark contrast to the enormous fluctuations in the volume and price of exports during the past few years. Given the limited prospects for external financing, it was clear that The Gambia might need to take further action, should the assumptions on which the program was based fail to materialize.

The proposed reductions in the fiscal deficit, particularly the projected 2.5 percent increase in public savings, were welcome, Mr. Clark noted, the relaxation of fiscal policy having been a major cause of the balance of payments pressures during the past year. However, even including grants, the deficit remained high; further reductions, which might be concentrated on current expenditure, would be desirable. In the original 1983/84 budget, civil service wages had accounted for nearly half of current expenditures; welcome savings had since been made, and a freeze on civil service recruitment and on wage increases had been introduced for the remainder of the fiscal year. He urged the authorities to persevere with a cautious approach to current spending in 1984/85 in order to improve public savings and reduce the pressure on both development expenditure and the balance of payments. Despite the new revenue measures included in the budget, in particular the repayment of arrears by the Gambian Produce Marketing Board (GPMB), the substantial shortfall in income tax receipts was worrying and looked set to continue in 1984/85. He hoped that the authorities could tighten their tax collection procedures. Could the staff comment on the structure of taxation, which seemed to be heavily dependent on trade taxes?

Referring to the parastatals, Mr. Clark observed that, while the rise in world prices of groundnuts had put the Marketing Board in a position to repay its arrears, its underlying financial position seemed weak and its reserves low. The February devaluation would have had the incidental effect of increasing the fertilizer subsidy, which had been one of the major causes of the Marketing Board's past difficulties, apart from the price of groundnuts. The timetable for phasing out the subsidy should not be allowed to slip. More generally, he looked forward to the report on the parastatal sector that was under preparation by a UN consultant and that should be taken into account in setting the performance criteria for 1984/85, if it were available in time.

On monetary policy, Mr. Clark continued, he had little to add to the staff's comprehensive discussion. He would simply emphasize that credit restraint, together with devaluation, was necessary in order to reduce the pressure on the balance of payments. He had noticed that gross domestic savings were estimated to increase from 8.7 percent of GDP in 1983/84 to 13.2 percent of GDP in 1984/85, according to Table 2 of EBS/84/68; presumably, 2.5 percent of the increase was due to higher public savings. Was the remainder attributable to the increase in interest rates or to other factors?

The reduction in the deficit on the current account of the balance of payments of over 4 percentage points of GDP, as programmed for 1984/85, would still leave the deficit at more than 16 percent of GDP, which was all the more worrying since it was projected to persist for the remainder of the decade. Much would depend on the outlook for exports, particularly of groundnuts. Owing to the critical importance of assumptions in that respect, he would have welcomed some "sensitivity analysis" in the projections for The Gambia, in line with his remarks when the Executive Board had reviewed progress under the arrangements for Malawi and Senegal.

Both the amount of external debt and the debt service ratio remained disturbingly high, Mr. Clark noted. The reduction in arrears, although modest, was perhaps as much as could be achieved at present. Nevertheless, arrears would constitute 20 percent of total debt in June 1985. He welcomed the authorities' commitment to eliminating arrears in the medium term. The sooner they could do so, the better: in particular, it might mean that The Gambia's imports would become cheaper as exporters' markups, which presumably reflected some premium on that account, were reduced.

Finally, on the problem of structural adjustment, it was clear that although the Gambian economy was overdependent on one commodity--groundnuts--the scope for diversification was limited, as indicated in the most recent report of the World Bank, Mr. Clark observed. Agriculture held out the most promise, because there might be some scope for producing rice and cotton, and for developing fisheries, although he had noticed that the volume of fish exports had dropped sharply in recent years. There might also be scope for growing drought-resistant crops, such as cassava and pigeonpeas. Recent improvements in the price system, together with the devaluation of the dalasi, were an essential part of such diversification; therefore, the increases in the producer prices for cotton and rice were welcome. The World Bank would have to play a leading role in the effort, and he noted with satisfaction the evidence in the staff paper of recent cooperation between the Fund and the World Bank. However, he would have welcomed a fuller analysis of progress in The Gambia on projects fostered by the World Bank, in addition to a listing of the projects presently in train. As Mr. Mtei had stated, the authorities were interested in encouraging investment in manufacturing and tourism. The shortage of foreign exchange and of skilled manpower suggested that there might be a role for an increase in direct foreign investment.

It seemed important to take account of economic linkages between member countries in a particular geographical region, if those countries had programs with the Fund, Mr. Clark remarked. For example, while trade between The Gambia and Senegal was not large, differences in prices, especially for groundnuts, offered incentives for irregular cross-border trade affecting export earnings. Other important linkages might exist as well. The staff was no doubt aware of the problems, and they could perhaps be covered in a short section of the paper to be prepared for the review under the stand-by arrangement.

Mr. Ismael said that he was in broad agreement with the staff assessment of The Gambia's economic situation and policies, and he fully supported the proposed decisions. Despite the apparently lax stance of monetary and fiscal policies in most of 1983, the authorities had been quick to return to the right policy course that they had followed successfully during the previous stand-by arrangement with the Fund. The important prior actions taken in some key areas served to reassert the authorities' commitment to appropriate adjustment policies. He also considered the program already in place, if implemented on a systematic and sustained basis, adequate to bring about further progress in reducing The Gambia's external and domestic imbalances.

Unexpected changes in the external environment, together with the slowdown of domestic economic activity, had been responsible for the temporarily relaxed stance of fiscal policy, Mr. Ismael believed. The figures presented in Table 3 of EBS/84/68 indicated that the large increase in the fiscal deficit and the bank financing requirement in 1982/83 could be explained almost entirely by substantially lower receipts from external assistance and from taxes on income than in the previous fiscal year. Despite lower expenditure than in 1981/82, the fall in receipts from grants--from D 57 million to only D 17 million--and in taxes on income--from D 15 million to D 11 million--had resulted in an increase in the budget deficit. At the same time, the significant decrease in available external financing had meant that the deficit had required substantially larger bank financing than in previous years. The budget figures for 1983/84 appeared to have assumed a rebound in receipts from external assistance and in domestic tax revenues, giving the authorities an opportunity to raise the level of expenditure, particularly development expenditure. The assumption had, however, proved overoptimistic; combined with difficulties in adjusting some expenditure items, the result had been an increase in bank financing.

He welcomed the plan in the fiscal program for 1983/84 to reduce the overall deficit to 12.2 percent of GDP, compared with 12.6 percent in the previous fiscal year, through various revenue measures and expenditure restraints, Mr. Ismael went on. Intensified tax efforts, expenditure savings on both the confederal budget and supplementary appropriations, as well as on wages and salaries, were most appropriate. Nevertheless, the budget deficit would still require bank financing equal to 11 percent of "beginning money" in 1983/84. With the money stock targeted to expand by about 5 percent in that fiscal year, the liquidity available to the private sector would have to be squeezed. While such a squeeze might be consistent with the achievement of external balance, the impact on the level of economic activity could be a cause for concern. It would be highly desirable to minimize the cost of adjustment by balancing the share of the adjustment burden more evenly between the Government and the private sector. Stronger fiscal measures might be needed in order to shift the burden away from the private sector, thus relieving the downward pressure on economic growth.

On the measures taken to improve the performance of the agricultural sector, which was still predominant in The Gambia's economy, Mr. Ismael mentioned that he was greatly encouraged by the active involvement and strong support of the World Bank. He could go along with the agricultural pricing policies articulated in the program, which aimed at restraining domestic demand, promoting crop diversification, and improving the financial position of the GPMB. In that connection, he had noted with interest the recent reduction by 13.5 percent in the producer price for groundnuts, and the intention to increase the producer prices for cotton by 20 percent and for rice by 10 percent. The lower groundnut producer price, together with the recent devaluation of the dalasi and the 57 percent increase in the international price of groundnuts, had undoubtedly contributed substantially to the improvement in the Marketing Board's financial position.

However, he would appreciate the staff's comment on the possible effect on incentives for producers, and he would urge that the level of the producer price for groundnuts be a matter for consideration during the first review of the program.

Mr. Finaish stated that he could support The Gambia's request for a stand-by arrangement and could go along with the proposed decisions. The stabilization program, in support of which Fund assistance was being sought, included a number of important policy measures, most of which had already been implemented in the form of prior actions. The fiscal and monetary measures outlined in the staff paper should enable the Gambian economy to reduce the financial imbalances that had expanded since the middle of 1983. He had noted in particular the 23 percent increase in budget revenue envisaged in the program, which, together with the improvement in the expenditure monitoring system, should help to contain the size of the fiscal deficit. At the same time, measures to limit credit expansion should reduce the upward pressure on prices following the recent devaluation and prevent a further deterioration in the external account.

In addition to demand-oriented policies, the program included measures related to producer prices that were aimed directly at the longer-term objective of more balanced growth in the economy, Mr. Finaish continued. It was a particularly important objective for The Gambia, where wide fluctuations in production and exports seemed to be recurrent, as shown in Table 2. That was not unusual for a country whose export revenue was concentrated on a single commodity that was sensitive to weather conditions and commanded far from stable prices. It was therefore essential for efforts toward the diversification of output and exports to continue. In that context, he welcomed the pricing policies under the program, and in particular, the adjustments in producer prices of agricultural products.

While a more stable growth pattern was an important goal for the longer term, fluctuations in production and export revenues would probably continue for some time, Mr. Finaish remarked. It was a prospect that raised a question about the objectives of the program relating to international reserves. Although gross reserves were expected to increase slightly over the period covered by the program, they would continue to be equal to about two weeks' imports in the next fiscal year, as shown in Table 2. In light of the balance of payments uncertainties, it would be useful for the staff to comment on the adequacy of reserves, both for the period immediately ahead and for the medium term.

Commenting on the exchange rate, Mr. Finaish considered that, in view of the substantial devaluation of the dalasi in February 1984, a more detailed discussion of exchange rate policy could have been included in the staff paper. The chart on page 6a, depicting movements in nominal and real effective exchange rates since 1976, did not make it clear what conclusions, if any, should be drawn. The real effective rate, which was often taken as an indicator of needed exchange rate changes, seemed to have been on a declining trend prior to the 25 percent devaluation in February. Of course, that trend did not necessarily suggest that no exchange rate action had been needed, but it pointed to the need for more explicit analysis of exchange rate policy, especially where adjustment of the rate constituted an important part of the adjustment program. In particular, the analysis should indicate the specific balance of payments objectives that exchange rate action was supposed to achieve. In The Gambia, it appeared that the impact of the recent depreciation would fall almost completely on imports. While import compression was usually a necessary ingredient in adjustment programs, care should be taken in using the exchange rate to align imports with fluctuations in output and exports that might well be cyclical. Such an exchange rate policy would in a sense be contrary to the Fund objective of trying to avoid undue swings in the exchange rate. The staff might wish to elaborate on the applicability of those considerations to exchange rate policy in The Gambia.

Mr. Caranicas said that he was in general agreement with the staff appraisal and supported the proposed decisions on The Gambia's request for a stand-by arrangement. Despite a recovery in real gross domestic product in 1982 and 1983, The Gambia's balance of payments continued to be in a precarious condition, and the economy remained heavily dependent on a single commodity, groundnuts. The country's economic fortunes, whatever efforts the authorities made, would continue to be closely related to the output and export of that commodity. Apparently, the latest estimates suggested that there had been no changes in the basic structure of the Gambian economy during the past six years.

In August 1983, the Executive Board had welcomed the intention of the authorities to seek the Fund's financial support for a comprehensive program of adjustment, Mr. Caranicas recalled. The need for a tighter budgetary and credit policy had been widely recognized. In parallel, it had been felt that wage restraint, realistic pricing policies, and improved performance by public enterprises were necessary ingredients of the program. Furthermore, the World Bank's active involvement in financing investment related to structural change had been considered highly desirable.

One could not but commend the Gambian authorities for the recent economic measures they had taken by way of prior action, as described in detail in the staff appraisal, Mr. Caranicas observed. The degree of fiscal discipline embodied in the stand-by arrangement was remarkable, with both current and development outlays being restrained. Besides intensifying the enforcement of tax collections, the authorities were expected to take new measures leading to a sizable increase in tax proceeds. Those measures were described in the fiscal memorandum of understanding between the Government of The Gambia and the Fund, and he hoped that the deterioration in the country's public finances would be reversed. Income taxes in 1983/84 would grow rather slowly in comparison with revenue from other sources, especially trade-based duties. But a different picture was portrayed in the staff paper for 1984/85, when it was estimated that income taxes would increase by a large sum that seemed unwarranted by the recovery in domestic activity. Perhaps the staff could explain its justification for such an optimistic projection.

A careful assessment of the likely effects of the recent devaluation was missing from the staff paper, Mr. Caranicas remarked. On the import side, the program estimates looked sensible, as higher import prices, coupled with demand restraint, should discourage imports. But on the export side, it was not entirely clear what the competitive position of The Gambia was at present and to what extent the devaluation could bring about some diversification of exports. The outlook was indeed blurred by the large proportion of groundnuts in total exports, and by the high variability of groundnut prices. For that reason, the medium-term forecasts of exports in Table 5 were somewhat perplexing. Claiming to base its assumptions on past trends, the staff had projected a small rate of increase in the volume of groundnut exports, and stable prices through 1989. However, the statistics in recent years--as illustrated by the staff paper itself--did not provide a firm yardstick, thereby casting some doubts on the medium-term scenario presented by the staff.

As a general observation, Mr. Caranicas stated that, as was well known, The Gambia was among the least developed countries and also among those situated in poverty-stricken sub-Saharan Africa. Along with other nations in the Sahel, from Cape Verde to Senegal and Upper Volta, The Gambia's crops were failing, water was scarce, livestock was dying, and hunger and malnutrition were driving people from rural areas to urban centers where there were no jobs. As pointed out in the staff appraisal, The Gambia had a good track record under its previous arrangements with the Fund. He was aware of the institution's policy of conditionality, and the present norms for access to its relatively limited resources, but he wondered why no proposal had been made to grant The Gambia greater access to Fund credit. The member appeared to have fulfilled all the requirements for access on a larger scale. Obviously, the staff judgment had been based mainly on The Gambia's financing need in relation to its quota, which was not big enough to justify larger access within the next 15 months. Nonetheless, the country's reserves were depleted--they were hardly sufficient to pay for two weeks of imports--its indebtedness was heavy, external payments arrears had increased substantially, and the economic outlook remained bleak. Mr. Mtei himself had euphemistically described the weather as adverse, and the decline in agricultural output had, in his words, led once more to "a virtual stagnation in economic activity."

The Gambia's projected current account deficit for 1984 and for future years was supposed to be financed primarily by official assistance and project loans, and much less through the use of Fund resources, Mr. Caranicas concluded. It would be interesting to have an assurance from the staff or management that the amounts pledged were firm and would be disbursed as scheduled.

Mr. Suraisry said that he agreed with the main points in the staff appraisal and could support The Gambia's request for a stand-by arrangement. The authorities had made commendable progress in 1981 and 1982 in reducing imbalances in the economy. Their success had owed much to favorable weather, and to the effective implementation of a Fund-supported stabilization program. The gains had been eroded in recent months, in part because of the severe drought, but also because of overexpansionary domestic policies. As the authorities themselves recognized, further efforts were required to strengthen the economy on both the demand and the supply sides.

The program seemed well designed to correct the main weaknesses in the economy, Mr. Suraisry commented. A number of important stabilization measures had already been taken, demonstrating clearly the seriousness of the authorities' commitment to adjustment. He welcomed in particular the emphasis in the program on restructuring the economy and on diversifying its productive base. The recent adjustments in producer prices and the measures to encourage tourism and small industries were useful steps in that direction. It was also encouraging that the World Bank was supporting the authorities' efforts to improve productivity in the agricultural sector.

In the short term, fiscal restraint was essential if the budget deficit were to be reduced to a more sustainable level, Mr. Suraisry stated. He therefore supported the new revenue measures and the cutbacks in expenditure contained in the recent budget. He also welcomed the recent improvements in the system of expenditure control. The authorities were to be commended for a firm policy on public sector wages, together with the introduction of more realistic pricing policies by the parastatal enterprises.

On the monetary side, the proposed credit ceilings appeared consistent with the targeted improvement in the balance of payments, Mr. Suraisry considered. He was glad that the authorities intended to develop domestic financial markets so that a larger part of the public sector deficit could be financed by nonmonetary means. He had noted that the new system of extending and monitoring crop financing credit to the private sector had worked well and would be continued.

Like Mr. Finaish and Mr. Caranicas, he had missed a thorough analysis of the impact of the devaluation on the external sector in the staff paper, Mr. Suraisry continued. Where a devaluation was large, the staff should conduct an in-depth thorough analysis and assess the impact of the devaluation on the external sector. The balance of payments should benefit from the authorities' export promotion measures. In addition, their commitment to phasing out external arrears was one important way of improving external confidence and strengthening the country's creditworthiness. He also supported the authorities' cautious external debt policy, which seemed essential in view of the expected sharp rise in the debt service ratio over the coming two or three years.

Looking further ahead, it seemed clear that The Gambia would face a heavy debt service burden for the rest of the present decade, Mr. Suraisry stated. There was therefore no alternative to continued adjustment efforts, aimed at putting the economy on the path of steady growth. However, to be successful, those efforts would require the support of the international financial community. He hoped that the Fund program would encourage prospective donors and commercial banks to lend their support to The Gambia.

Mr. de Vries said that he agreed with previous speakers that the program under the stand-by arrangement for The Gambia deserved full support. The economy had been brought back on track in the years preceding 1983, when it had been derailed; but it was being put back on a better track with the measures that had been taken and that were proposed. The fiscal deficit was expected to fall from over 9 percent of GDP in 1982/83 to 6 percent in 1984/85, and the current account deficit to fall from over 29 percent of GDP to around 16 percent of GDP over the same period. Yet The Gambia's external debt would remain high, with arrears constituting about 20 percent of total debt. Thus, even though substantial progress was expected under the program, there was little further improvement in sight beyond the end of the period.

The solution to The Gambia's longer-term problems was not a matter for the Fund, but it was nevertheless of concern, Mr. de Vries noted. Indeed, some Directors had already suggested that the Fund might have provided more assistance under the stand-by arrangement. He himself agreed with the arguments by the staff justifying the amount being made available. He had been particularly struck by the quite rapid rise of external debt as a percentage of GDP, which was skewed, as indicated in footnote 4 to Table 2, with the debt figures for 1979/80 and 1980/81 not being comparable to those for the following fiscal years; where the figures were comparable, the ratio would rise from 71 percent of GDP in 1981/82 to 87 percent of GDP in 1982/83, and to more than 100 percent of GDP in the current fiscal year, before falling somewhat under the program. Debt to the Fund itself was included in those figures, as it should be, if the Fund's resources were in reality to revolve. Even if the external debt figures did not exclude repurchases due to the Fund, The Gambia's total external debt would continue to rise in terms of GDP.

Like any other country in a similar situation, Mr. de Vries commented, if The Gambia wanted its economy to prosper, it had at its disposal, for spending or investing, the sum total of its own resources and productive capacity, as well as the resources obtained from abroad. For most countries, what would be available from external sources over the coming few years was more or less a given. The Fund could be of some help, but countries would not be able to promote economic growth by stimulating demand one year and by restricting it the year after. It was a fundamental problem that stood out more clearly in a small economy, like The Gambia, than when it was clouded by the complexities of larger economies. But no country could escape the basic dilemma. In conclusion, in approving the stand-by arrangment, he hoped that the authorities would find ways and means to solve their long-term structural problems.

Mr. Leonard said that he had found some difficulty in fitting together in a fully satisfactory way a number of the detailed developments in The Gambia described in EBS/84/68 and in relating them to the policies that, it was proposed, should be followed during the period of the stand-by arrangement. However, it did emerge clearly from the staff paper that the program and provisions under the stand-by arrangement would provide a useful supporting framework for the authorities' economic policies during the year or two ahead. Thus, while it was disappointing that the progress made in much of the past two fiscal years and during the previous stand-by arrangement had been interrupted in 1983, there was reason to believe that the setback could be overcome and further progress made toward achieving the Government's objectives. That belief was reinforced by the prior action taken by the authorities. For those reasons, he was happy to support the proposed decision.

The fact that many of the measures to be taken during the stand-by arrangement had yet to be settled in detail had left him with the impression that the arrangement had been brought into effect rather hastily, Mr. Leonard continued. It would seem quite appropriate for some of those measures to be included in the 1984/85 budget, but, according to the staff paper, they would not be introduced until some time toward the end of 1984, presumably after the introduction of the budget. The provision for frequent reviews also seemed to suggest that the likely pattern of future developments was not altogether as clear as the staff would like. Moreover, the first installment of purchases under the stand-by arrangement was based to some extent on undertakings rather than on performance, at least as he saw it.

Finally, Mr. Leonard noted, the implied rate of annual access to the Fund's resources under the proposed arrangement was 60 percent. The rate appeared fully justified in the circumstances outlined by the staff.

Mr. Erb said that he was in agreement with the staff appraisal. He could support The Gambia's request for a stand-by arrangement. Well before the Executive Board took up the request, the authorities had implemented a comprehensive set of policies in a number of areas and had taken definite steps as prior actions in order to ensure the success of their current program, which he also supported.

The point that he would emphasize, in line with Mr. Clark's extensive comments and the concerns of Mr. de Vries, was the need to concentrate on the medium-term prospects, Mr. Erb continued. In the course of one of the reviews, perhaps toward the end of the year, the staff should perhaps make a more detailed examination of the kinds of adjustment in macroeconomic and structural policies that would help to close the external financing gap more rapidly. The current account deficit for the period beyond 1983 and 1984 would remain in the range of 13 percent of GDP. It would be helpful if the staff, perhaps by working closely with the staff of the World Bank, could again explore the possibilities for adjustment within the domestic economy with a view to accelerating the achievement of the balance of payments objective.

Mr. Tshishimbi remarked that it was clear from the staff's presentation and from Mr. Mtei's statement that the program submitted to the Executive Board was a strong one that deserved to be supported. He was confident that the Gambian authorities' firm record of commitment, and the prior actions that they had already been taking, would stand them in good stead in carrying out the proposed program.

In the light of the discussion so far, Mr. Tshishimbi added, he too wondered why it had not been possible, given the structural nature of The Gambia's economic problems, to envisage a medium-term program that could be supported in collaboration with assistance from the World Bank. The Gambia's difficulties were similar to those of neighboring countries, particularly Senegal's, including heavy dependence on the groundnut crop, which had in recent years been a victim of drought. The Gambian authorities were wise to try to diversify the economy, even though the possibilities for doing so were limited. Nevertheless, even in the agricultural sector, where the World Bank was willing to help, diversification could make a contribution to establishing the basis for a medium-term program. He hoped that the donors, who were scheduled to hold a conference toward the end of 1984, and the Fund itself would play an important part in helping The Gambia to mobilize additional resources to finance its development.

Mr. Malhotra stated that he fully supported the proposed decisions. He associated himself with the remarks made by Mr. Erb, Mr. Clark, and Mr. de Vries. Despite the strong actions taken by the Gambian authorities in the fiscal and external fields, the balance of payments position would remain difficult at the end of the proposed stand-by period, and probably in the medium term also. Therefore, it was important to take a medium-term view of the development of The Gambia's economy, in conjunction with the World Bank, to determine what further policy and other action was necessary to establish a stable economic base.

He joined other Directors in asking for a further explanation by the staff of the appropriateness and the extent of the large devaluation carried out in February, Mr. Malhotra went on. In all probability, the devaluation would have no impact on exports, whereas it would curtail imports; it would be worthwhile knowing which imports would be affected. There was an indication in the staff paper that the exchange rate in the unofficial market was from 20 percent to 30 percent lower than the official rate, but when there was a scarcity of foreign exchange, unofficial rates tended to overstate the likely extent of the overvaluation of a currency. Great care should, therefore, be taken in using unofficial exchange rates as a guide to the size of a devaluation; otherwise, there was a danger of setting up a vicious circle of even larger devaluations in order to cope with their inflationary effects.

Mr. Morrell said that he supported the proposed decisions. He had been encouraged by the measures already taken by the authorities, but, like Mr. Clark and a number of other Directors, was concerned about the medium-term position. As Mr. Malhotra had just mentioned, large imbalances would remain at the conclusion of the stand-by arrangement. He would like to see more progress made in the direction of improving the structure of the Gambian economy.

The staff representative from the African Department explained that there were various reasons for expecting an increase in the savings ratio over the coming year under the program. Interest rates had been increased, and they would be kept under review during the two reviews scheduled under the stand-by arrangement. The Gambian authorities were also deploying a number of new investment instruments, and the indications so far were that the private sector was subscribing to those government issues. Furthermore, several of the measures under the program were expected to have a significant effect on private consumption and thereby on the savings ratio.

Questions had been raised about the progress being made under World Bank projects in The Gambia, the staff representative continued. The most significant project was the IBRD Development Project II (ADP II). The staff understood that the Executive Board of the World Bank would be discussing the project in mid-May, and there was no reason why the project should not be launched on schedule in mid-July.

The staff had under review the effect on incentives of the recently announced reduction in the price of groundnuts, the staff representative explained, and would take up the issue of groundnut subsidies when it returned to The Gambia toward the end of May. Up to a point, the staff shared the view of the IBRD staff that, because the recovery of world groundnut prices was expected to hold for a year or two, it might be desirable to reconsider the structure of producer prices because of the importance to the success of ADP II of maintaining incentives to produce The Gambia's major export crop.

Both the Gambian authorities and the staff would agree that gross reserves were inadequate and should be increased, owing to the volatility of the export sector, the staff representative noted. However, the staff had tried to strike a balance between the need to reduce the large arrears, which were costly and affected international confidence, and the need to accumulate reserves.

The staff was beginning to focus more widely on the linkages between various instruments of economic policy in a given region, the staff representative observed. The long border between The Gambia and Senegal was at the origin of several such linkages. First, the unofficial exchange rate between the dalasi and the CFA franc had many repercussions on the movement of export crops through those two countries. Second, producer prices in The Gambia and Senegal had similar implications. Third, the different rates of taxes on international trade in the two countries could have an important effect on the re-export trade. The staff had to keep the combined impact of such broad linkages between two countries in mind whenever it considered either the appropriateness of the exchange rate or the design of programs.

The staff was also conscious of the need to ensure that a prudent credit policy was followed under the program, so as not to impede the recovery of the private sector, bearing in mind the external pressures arising from the debt burden and arrears, the staff representative continued. However, the structure of the Gambian economy was such that a large part of private sector credit--especially when the credit to the Marketing Board was included--financed imports. In addition, assistance to the private sector had been more specifically associated with projects on which the World Bank and other international organizations were working; for instance, the IBRD project to which he had already referred was important for farmers. The fishery sector was also being assisted, and some effort was being made to promote very small manufacturing projects. Investment incentives were the sole instrument used by the Government itself to encourage private investment. There was thus not a large productive private sector--with the exception of export/import activity--that would tend to be affected by tight credit policy.

With hindsight, it would have been helpful to include a much more extensive analysis of the reasons for the exchange rate action and its extent, the staff representative admitted. The immediate effect of the devaluation would fall on imports. There would be little effect on the groundnut sector, in terms of increasing exports. A fuller analysis would have shown that the major objective of the exchange rate action was to improve the financial position of the Gambian Produce Marketing Board, which had had large losses in the two fiscal years preceding 1983/84, and which had thereby incurred costly bank credit, to the detriment of the balance of payments position.

As for the indicators that had suggested the need for exchange rate action, the staff representative explained, although the unofficial exchange rate of the dalasi had been foremost in the staff's thinking, two other factors had also been relevant. The official exchange rate of the dalasi vis-à-vis the CFA franc had been depreciating. In addition, the staff's calculations had indicated that the rate of monetary expansion had been in the neighborhood of 30 percent in the year preceding 1983/84. With such a large liquidity overhang, and in the absence of sufficient reserves to cushion its impact, the burden had fallen on the exchange rate, thereby contributing to the arrears problem. It should also be borne in mind that, as the President of The Gambia had mentioned in his statement on the stabilization program for 1984/85, it would be unrealistic to maintain that an exchange rate that had been appropriate ten years previously would continue to be the right rate in present circumstances, especially since the dalasi had actually been revalued from D 5 to D 4 to the pound sterling in 1983.

There were two reasons for the staff's expectation that receipts from income taxes would increase significantly in 1984/85, the staff representative said. Some of the new measures introduced in the 1983/84 budget were not actually being implemented until later in the fiscal year, so that they would have only a partial impact on revenues in the current fiscal year. If the increase for 1984/85 did not appear large at first sight, remaining at roughly the same level as in 1981/82, it had to be remembered that the attempted coup in 1981 had affected revenue.

The amount of the stand-by arrangement, and the related issue of whether or not firm and satisfactory arrangements had been made to finance the remaining balance of payments gap, were of course always partly matters of judgment, the staff representative observed. Nevertheless, the staff had been careful to ensure that the figures on financing for fiscal years 1983/84 and 1984/85 were based on firm commitments. Project grants and loans, the two largest components of balance of payments financing, were based on firm figures provided by the Ministry of Financial Planning and Economic Development. The ability of the United Kingdom to give The Gambia some relief on a debt of about $7 million also provided a certain cushion, and a commercial bank in the United Kingdom was also discussing the possibility of rescheduling certain loans to The Gambia.

Nevertheless, the staff representative added, the principal consideration in setting the amount of the stand-by arrangement had been the medium-term balance of payments outlook, which would remain strained. The Gambia would need, and over an extended period, both direct support and the indirect support that a continuing arrangement with the Fund would generate in the form of other sources of external financing.

Should there be any impression in the minds of Executive Directors that the program under the stand-by arrangement for The Gambia had been drawn up and presented for consideration somewhat hastily, the staff representative remarked, it was probably because the staff and the Gambian authorities had held several discussions on the elements of the program during the year succeeding the expiration of the preceding program. The policy measures had not all been agreed until January 1984; however, it was important to note that the program also rested on a number of prior actions taken before the staff paper had been issued to the Executive Board. For instance, the fiscal measures for 1983/84 had all been implemented in anticipation of the program, as had later measures adopted in January, thereby leading to the eventual agreement. Action had also been taken on producer prices, the exchange rate, and the interest rate. It would not be right to deduce from the staff paper that the underpinning policy measures for 1984/85 had not been discussed, or that they would not be discussed until after the budget had been implemented. The whole idea had been to agree first with the authorities on a broad outline of the budget, consistent with the program, and to discuss the specific measures in the context of the review to take place in May-June, 1984 in time for their incorporation in the 1984/85 budget. The matter would be covered in the report prepared by the staff for the review by the Executive Board, which would take place before August 31, 1984.

The possibility of a medium-term approach to The Gambia's economic problems had also been examined by the staff, the staff representative from the African Department observed. However, before the Executive Board could approve an arrangement for a longer period, an investment program would have to be approved by the World Bank, which had encountered certain difficulties and could not at present endorse a program. In addition, the slippages that had occurred in several areas since the end of the previous stand-by arrangement had tended to underline the need to look again at the shorter-term perspective before a clearer view could be had of the medium-term outlook. Discussions had been continuing in a number of areas, especially with respect to the fiscal sector, in relation to developments in a neighboring country.

Mr. Erb asked whether it would be possible for the Government to follow a regular procedure for setting producer prices in relation to price developments in world markets.

The staff representative from the African Department replied that the producer price was set in the light of the current and prospective world price for groundnuts. At the same time, an effort had to be made to make the producer price comparable with the price in Senegal. The ideal solution would be an alignment of groundnut producer prices in both countries, but in practice, it had not yet been possible to develop a consensus on the issue. Furthermore, direct comparisons were difficult to make, because the producer prices in Senegal also included an element of subsidization for the cost of fertilizers. Finally, forecasting prices of agricultural products was a notoriously hazardous exercise. The World Bank and the Fund had urged the authorities to respond flexibly to changes in price assumptions. The staff would not hesitate to keep the matter under review, and it was continuing to explore, with the World Bank, ways of increasing the expertise of the two institutions in the area, so far without much success.

Mr. Malhotra said that he would be interested to know the reasons for the weak financial position of the Marketing Board; some of the causes might not have any direct bearing on the appropriateness of the exchange rate. Of course, producer prices should be set at the right level, and the Marketing Board should function on a commercial basis and not incur heavy losses. But he had difficulty understanding why the profitability of a Marketing Board as such should be an important factor in determining the exchange rate.

The staff representative from the African Department explained that the losses of the Marketing Board had amounted to about D 30 million in both 1981/82 and 1982/83. A number of complex factors underlay those losses, and the staff had to make a constant effort to assess them as best it could. Sometimes the losses were the result of price developments, the volume of output, a combination of both, or of action taken by the Government, particularly to subsidize fertilizers, although steps were being taken to reduce those subsidies. Some measures had been introduced under the 1981/82 program to reduce the high costs of operating the Board, and the Government and the Marketing Board were at present discussing with the World Bank the possibility of further reducing those costs. However, based on the observations of the Fund staff, there was not a great deal of scope for doing so. Developments on world markets with respect to both the price of and the demand for groundnuts, insofar as they affected the Marketing Board, were of course beyond the control of the authorities.

The dilemma facing the staff had been that without a way to improve the financial position of the Marketing Board, which would in any event not show a surplus, the need to expand credit in the economy would remain excessive, leading to the all too familiar pressures that had been felt in The Gambia in the past and were currently making themselves felt, the staff representative went on. Thus, the staff had tried to find a way to limit the absorption of credit in the economy as a whole, and more particularly by the Marketing Board, while bearing in mind that the use of the exchange rate as an instrument involved side effects that had to be taken into account. The staff would consider how best to resolve the conflicting objectives, but would place importance on the need to maintain the Marketing Board as a viable institution with a key role to play. The staff of the Fund and of the World Bank were of one mind on that point.

In response to a further question by Mr. Leonard, the staff representative from the African Department explained that the 1984/85 fiscal year began on July 1. The mission scheduled to visit The Gambia toward the end of May would then fill out in more detail the broad outline of the budget for 1984/85, paying particular attention to fiscal measures.

Mr. Mtei observed that, as he had noted in his introductory statement, and as Executive Directors and even the staff had stressed, the economic problems of The Gambia were essentially structural; medium-term to long-term measures would be needed to tackle them successfully. The Executive Board might recollect that the authorities had been prepared to avail themselves of an extended arrangement in 1981, in anticipation of which they had taken a number of strong prior actions. However, because of the disruptions brought about by the attempted coup, the Executive Board had approved a stand-by arrangement for one year, in February 1982. The establishment of the Confederation of Senegambia had also led the Fund to watch developments before entering into a longer-term commitment. The Gambian authorities themselves had been desirous that the 1982 stand-by arrangement should be succeeded by an extended arrangement, and they had been prepared to collaborate with the staff on the design of a suitable program in 1983. That had not been possible, owing to the staff's assessment that uncertainties still prevailed; the authorities had therefore accepted the compromise that they had reached with the staff and that was before the Executive Board.

There was no doubt that The Gambia's problems could best be resolved with continued Fund support, which would facilitate and encourage the participation of institutions like the World Bank and other bilateral donors, Mr. Mtei observed. He had been encouraged by the comments of Executive Directors in that connection, and he was confident that his authorities would look forward during the coming year to collaborating with the staff on the development of a medium-term successor to the program under the stand-by arrangement.

The Gambia's dilemma was all the more acute because of the violent fluctuation of the prices for its major export product, Mr. Mtei remarked. As Executive Directors would note from Table 2 of EBS/84/68, The Gambia's exports had increased in volume by 82.9 percent in 1982/83, whereas export earnings in terms of SDRs had increased by only 4.1 percent. That offered a graphic demonstration of the plight of developing countries, especially those dependent on a single primary export commodity. The case for diversifying The Gambia's economy was overwhelming, and he hoped that the authorities could be assisted in meeting that necessary goal. The general question of the need to stabilize commodity prices could not be made more eloquently than by the stark figures in that same table, showing that the volume of The Gambia's imports had increased by 3 percent in 1982/83, whereas their cost in terms of SDRs had risen by 6.1 percent.

The Gambia should be encouraged, in its diversification efforts, not only to maximize the value added to its major export crop of groundnuts, but also to embark on other activities, including manufacturing, tourism, and fishing, Mr. Mtei stated. The emphasis in the agricultural sector should be not just on other crops, but on drought-resistant crops and on irrigation; less and less dependence should be placed on rain-fed agriculture because of the dangers that had been posed so frequently by drought in the recent past. It was in that connection that longer-term finance from the World Bank and other donors would come in handy.

Since the Executive Board had shown its agreement with that approach, Mr. Mtei continued, he hoped that the successor program would be a medium-term one and that the Fund would also increase the amount of its financing. He was conscious that the Fund's holdings of dalasis had reached about 257 percent of quota, but even with the reduction of enlarged access limits, total cumulative holdings could go up to 500 percent of quota. For that reason, he felt that the Fund could have been more helpful by being somewhat more flexible. Under the new stand-by arrangement, The Gambia would be able to draw only 75 percent of quota, or SDR 12.83 million, for 15 months, whereas the Fund had been able to provide SDR 16.9 million for 12 months in 1982. Having accepted the program, and shown their determination to implement strong measures to buttress it, the authorities should implement it. However, Mr. Mtei stressed, the successor program should be less rigid and its financing larger if The Gambia were to be successful in its structural adjustment efforts.

The payments arrears of The Gambia were large, and could be eliminated only over the medium term, Mr. Mtei remarked, calling for understanding on the part of creditors. As he had said before, the creditors might be prevailed upon to participate in long-term restructuring and diversification of the economy in order to permit The Gambia to meet its obligations in a manner that was not damaging to its social and political fabric.

Finally, Mr. Mtei expressed the hope that the detailed and intensive reviews envisaged during the implementation of the program would lead the country toward a solution of the real problems with which it was confronted.

The Executive Directors then took up the text of the stand-by arrangement and the proposed decisions.

The staff representative from the African Department noted that following the discussion by the Executive Board on April 5, 1984, of a staff paper on experience and procedures relating to overdue payments to the Fund (EBS/84/46, 3/9/84), the Executive Board had adopted a decision on a lapse-of-time basis (SM/84/82, 4/18/84), to be recorded in the minutes of the present meeting, requiring the inclusion of a new performance criterion concerning overdue obligations to the Fund in the text of existing stand-by arrangements. Accordingly, paragraph 4(d) of the text of the proposed stand-by arrangement for The Gambia should be revised to read: "during the entire period of this stand-by arrangement, while The Gambia has any overdue financial obligation to the Fund, or if The Gambia...."

The Executive Board then took the following decisions:

Stand-By Arrangement

1. The Government of The Gambia has requested a stand-by arrangement for the period April 23, 1984 to July 22, 1985 in an amount equivalent to SDR 12.83 million.

2. The Fund approves the stand-by arrangement set forth in EBS/84/68, Supplement 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 7673-(84/62), adopted
April 23, 1984

Exchange System

The Gambia's exchange system involves restrictions on payments and transfers for current international transactions, including external payment arrears and a multiple currency practice as described in EBS/84/68. The Fund notes the intention of the authorities to remove these restrictions as soon as possible. In the meantime, the Fund grants approval for their retention until August 31, 1984 or the completion of the 1984 Article IV consultation with The Gambia, whichever is the earlier.

Decision No. 7674-(84/62), adopted
April 23, 1984

3. NIGER - 1984 ARTICLE IV CONSULTATION, AND STAND-BY ARRANGEMENT - REVIEW AND MODIFICATION

The Executive Directors considered the staff report for the 1984 Article IV consultation with Niger and review and modification of the stand-by arrangement for Niger (EBS/84/66, 3/26/84; Cor. 1, 4/17/84; and Sup. 1, 4/20/84). They also had before them a report on recent economic developments in Niger (SM/84/73, 4/9/84; and Cor. 1, 4/17/84).

The staff representative from the African Department stated that, as envisaged earlier, the Nigerien authorities had confirmed that 54 studies had been completed of various parastatal enterprises; those studies were being examined by an interministerial committee, which would decide on appropriate policy actions. The authorities had also indicated that the markups on products sold by Niger's official marketing and output body (COPRO-NIGER) had recently been increased, on average, by 12 percent. Those increases were in accordance with Section II, paragraph 6(iv) of the Memorandum on Economic and Financial Policies, which was attached to the letter from the Prime Minister dated January 20, 1984.

Mr. Alfidja made the following statement:

In July and October 1983, the Executive Board had the opportunity to discuss economic and financial developments and policies in Niger, and to review the performance of the economy and its prospects in connection with the discussions leading to the approval of the present stand-by arrangement. Therefore, I will confine my remarks to economic and financial developments and policies in 1983 and the outlook for 1984.

The economic performance in the real sector in 1983 has been characterized by a decline in overall activity that was more pronounced than expected. Indeed, on the basis of preliminary estimates, real GDP has decreased by 2.6 percent, well below the 1.6 percent decline forecast. This outturn, which followed a decline of almost 1 percent in total output in 1982, was a reflection of a decrease in the activities of the construction and mining sectors, the value added of the agricultural sector remaining broadly unchanged. Cutbacks in public investment have played a role in the fall in output of the construction and uranium-related sectors.

In the fiscal field, the 1983 overall deficit of some 7 percent of GDP exceeded marginally the program projection but was practically unchanged from a year ago. This performance reflected chiefly a decrease in revenue, especially a fall in import taxes by 23 percent. It is to be mentioned that the higher level of total expenditure of about CFAF 117 billion recorded in 1982/83 as compared with the CFAF 111 billion programmed is attributable to larger inflows of projected-related concessionary loans. Therefore, the higher level of the 1983 fiscal deficit should not be interpreted as a relaxation of fiscal discipline. The Government's commitment to fiscal restraint, in particular in 1983, is evidenced by the 14 percent decrease in real terms of current expenditure that took place as well as the halving of the Treasury's recourse to bank financing.

Monetary developments in 1983 have been more satisfactory than expected. Indeed, the rapid expansion in domestic credit of nearly 30 percent on average recorded during 1980-82 has slowed considerably to 9 percent, or 4 percentage points below the program level. This slowdown was noted in both the Government and private sectors and reflected the downturn of overall economic activity as well as the Government's policy of containing aggregate demand.

In the external sector, the current account deficit of 11 percent was in line with expectations. This outturn, which represents a 4 percentage point improvement over the 1982 outcome, was achieved largely by a cutback in imports, export earnings having fallen more than expected. A slightly higher than programmed inflow of foreign grants has also contributed to the 1983 current account position. The combination of this position with a capital account surplus, which represented a substantial improvement over the 1982 flow, has led to a noticeable amelioration of the overall balance of payments. Thanks to the latter favorable developments, and the use of Fund resources, the stock of gross official reserves which had been dwindling, has risen by SDR 16 million to SDR 43 million in 1983.

For 1984, the program calls for a further reduction in the deficit of the external current account as well as in the overall fiscal deficit whereas domestic credit is envisaged to expand a little more rapidly than in 1983. This outlook is predicated upon a reversal of the downtrend in overall economic activity, continued adherence to fiscal discipline, and an abatement of inflationary pressures.

In the real sector, the upturn of 1 percent forecast in real GDP is to reflect principally the growth in the value added of the agricultural and private service sectors. The increased emphasis of the Government on the implementation of directly productive projects along with the provision of more adequate extension services is expected to stimulate output in the agricultural sector. Price incentives and improved marketing facilities are also expected to contribute to boosting output in rural areas.

Regarding the fiscal sector, the overall deficit is projected to decrease by 3 percentage points in 1984 owing to both a recovery in revenue and a further cutback in government spending. The growth in revenue is to reflect the upturn in real GDP as well as the slowdown in the fall in imports. This underlying momentum is expected to be aided by revenue measures put into place, notably in September 1983. These included a change in the corporate profit tax payment schedule, an expansion of the income tax base, and a rise in the tax rate applied to petroleum products and telecommunication services. However, the effect of these tax measures placed in the context of the present wage restraint policy should not be overstated. In spite of the above considerations, the Government intends to carry on with the study aimed at reforming the tax system.

Concerning the parastatal sector, the Government plans to pursue the restructuring effort under way. It has already taken rehabilitation measures affecting a number of public enterprises. These include increases in tariffs for electricity (NIGELEC) and water (OFEDES), and a reduction in staff--notably of OPVN, of COPRO-NIGER, and of OFEDES. In order to reduce costs further, the number of sales centers of OPVN and COPRO-NIGER and of buying centers of the former have been reduced. Noteworthy is the decision to adjust electricity tariffs regularly to reflect production costs. These cost-reducing and revenue-increasing measures are evidently aimed at ameliorating the financial performance of the parastatals, thereby reducing their drain on budgetary resources. The Government is working in close cooperation with institutions such as the World Bank in order to find the most appropriate solutions to the problems being confronted by public enterprises.

The external current account deficit is forecast to decline from about 11 percent in 1983 to 9 percent, owing to a further decrease in imports--though at a smaller rate than in 1983--in line with the lower public investment that is envisaged. A smaller net outflow of transfers--due in part to the departure of a significant number of expatriates--is also expected to contribute to the improved outturn of the current account projected for 1984. However, as a result of a marked deterioration in the capital account, reflecting lower gross drawings associated with the cutbacks in capital spending, the overall position of the balance of payments is forecast to worsen in 1984.

Niger has observed all the performance criteria set for end-December 1983. At the inception of the program, the ceiling on external borrowing was set at zero. However, in view of the importance of a few ongoing projects for which financing has been secured mainly on concessional terms, the Nigerien authorities are requesting a modification of this ceiling in order to mobilize loans totaling $9.65 million in the maturity range of 1 to 12 years. As the staff rightly pointed out, these projects are essential, and the impact of the borrowings on the debt service ratio will be marginal. Therefore, I urge my colleagues to accede to the request for the modification.

In conclusion, the Nigerien authorities have demonstrated their determination to undertake redressment measures with a view to gradually restoring viability in the economy. They share the Executive Directors' general view that the road to development and economic expansion will be a long and treacherous one. They are resolved to walk it--with the continued assistance of their current and potential aid donors as well as of institutions such as the World Bank and the Fund. With respect to the World Bank, the Government would like to reach in the very near future an agreement on a structural adjustment loan while furthering its relationship with the Fund in the context of a medium-term program.

Mr. Mtei expressed general agreement with the staff analysis of the recent economic performance of Niger and accepted the considerations that had led to the proposed modification of the stand-by arrangement. Therefore, he could support the draft decisions. It should be recalled that the current financial program had been launched against a background of serious economic and financial difficulties, manifested in the weak financial position of the parastatals, large imbalances in the public finances and balance of payments, and a mounting burden of external debt. The authorities, in their efforts to address those problems within the context of the present program, had taken substantial and wide-ranging prior actions, including measures to increase revenue and reduce expenditure, to decelerate credit growth, and to restrain foreign borrowing.

As a result of those efforts, some progress had been made toward reducing imbalances, and all the performance criteria for end-December 1983 had been met, Mr. Mtei remarked. However, the situation continued to be difficult. Financial imbalances, both external and domestic, remained large and economic activity had been weak. Despite some success in reducing inflationary pressures during 1983, real GDP had dropped by 2.6 percent for the second year in a row, reflecting unfavorable weather, weak external demand for uranium, a continued worsening of the terms of trade, and a significant reduction in the inflow of development aid. The important role of domestic policies was not, however, to be ignored.

Without trying to question the appropriateness of the adjustment made so far, Mr. Mtei went on, he wished to stress some of the possible implications for the immediate resumption of growth. The staff had rightly stated that "the adjustment is being achieved more through austere demand management measures...than through improved performance on the supply side." In that respect, he noted that by 1983, total investment as a percentage of GDP had declined to less than 50 percent of the 1979/80 figure. The impact on future economic activity of such a sharp reduction in investment could hardly be overemphasized. Similarly, the volume of imports in 1983 had fallen to about 60 percent of the 1980 volume. In a country that imported all its capital goods and developmental inputs, such a large decline in imports raised doubts about the likelihood of an early resumption of growth as well as about future capacity to service debts. Perhaps more immediate attention should be given to supply-side measures that could reverse the present depressed economic situation.

Although the authorities had made commendable efforts to reduce the level of government expenditure, the fiscal deficit in 1983 had turned out to be higher than targeted in the program, mainly because of a revenue shortfall, Mr. Mtei observed. Despite several measures taken by the Government, including new taxes, increased tax rates, and tightened collection procedures, revenue had still been lower than envisaged under the program. That outturn did not seem unexpected, in a situation characterized by weak economic performance and a sharp drop in imports, which provided the major tax base. If economic activity did not recover from its depressed level, it was unclear to him how much improvement a tax reform could bring about. The key issue was again one of an early resumption of growth that would allow for import expansion and broaden the tax base. A continuation of present efforts to contain the fiscal deficit seemed unavoidable, but, if imbalances in the economy were to be corrected, the question of growth should be given higher priority.

The strong measures taken by the authorities toward rehabilitating the parastatal sector were a step in the right direction, Mr. Mtei remarked. Completion of the current comprehensive studies that were under way should enable the authorities to formulate a clear strategy for making the parastatals financially independent.

Niger's external public debt service, which had stood at 35 percent of export receipts in 1983, would remain a heavy burden, and had been labeled by the staff "the most worrisome aspect of the medium-term outlook," Mr. Mtei noted. The authorities were aware of the situation, and he could thus accept their request for a small modification of the ceiling on nonconcessional borrowing to permit the mobilization of certain loans.

Finally, it was clear that the size and nature of the imbalances facing Niger's economy would require the continuation of adjustment policies over a longer period, Mr. Mtei commented. A sizable inflow of development assistance and concessional loans would be necessary for the adjustment process to succeed. Continued financial assistance from the Fund was also required, and he supported the Nigerien authorities' intention to request further use of Fund resources.

Mr. Ismael stated that the sharp turnaround in exports of uranium, which accounted for 80 percent of total exports, a decrease in foreign aid inflows, and financial problems in the parastatal sector since the early 1980s had confronted Niger with another year of imbalances in its public and external sectors, a contraction of economic growth, and a heavy burden of external debt service payments. Despite those difficulties, it was encouraging to note the progress made so far toward adjustment, as reflected, for instance, in the declining trends in the rate of inflation, the external current account deficit, and the overall balance of payments position. He also noted with satisfaction that all performance criteria under the current stand-by arrangement had so far been observed.

He shared the staff view that, in continuing the adjustment process in 1984, Niger would have to put even more emphasis on reducing its fiscal deficit while pursuing prudent investment policies, rehabilitating the parastatal sector, and restraining domestic credit expansion and foreign borrowing, Mr. Ismael went on. In that context, he had been happy to note the good collaboration of the World Bank in assisting Niger to reform the parastatal sector and review the investment program. Sizable cutbacks in spending on infrastructure in the public investment plan for 1984-85, and the reorientation of allocations to the productive sectors with a view to diversifying production and exports, were steps in the right direction. In that connection, the expected structural adjustment loan from the World Bank was indeed appropriate.

Looking ahead over the medium term, Mr. Ismael remarked, there was still cause for concern about a number of serious problems that would remain, especially relating to the current account, the balance of payments financing gap, and external debt. Various solutions to those problems would have to be explored, but above all, adjustment would have to be emphasized. The readiness of the authorities to commit themselves to that effort was therefore essential. Finally, he registered his support for the proposed decisions, both that concluding the Article IV consultation and that modifying the stand-by arrangement.

Mr. Shaw said that he was in agreement with the staff appraisal. He could also support the proposed decision modifying the ceiling that placed a limit on the acquisition of loans in the maturity range of 0-12 years. As he understood it, Niger would be making loans to finance specific projects so that its debt service profile would not be significantly worsened.

The authorities had made commendable progress toward adjustment over the past six months, Mr. Shaw stated. They had shown evidence of commitment to the adjustment program, in their continuing efforts to achieve a viable balance of payments in the medium term, and fiscal discipline as well. He welcomed the Fund's technical assistance in helping the authorities to attain their fiscal objectives.

A start having been made over the past six months on correcting the imbalances in Niger's economy, Mr. Shaw continued, it was perhaps appropriate at the present stage to begin to look at the medium-term adjustment requirements. To date, as the staff itself had noted, the adjustment had been achieved more through demand management measures than through improved performance on the supply side. As a first step, he would urge the authorities to continue to reduce the imbalance in government finances. The restructuring of the parastatals would be an important, if not crucial, part of medium-term adjustment. He welcomed the strong measures taken by the authorities to improve the operation of the marketing organizations and to restructure the tariffs of public utilities. The detailed information on pages 14 and 15 of EBS/84/66 and in Supplement 1 indicated that a beginning had already been made. Nevertheless, only the first steps had been taken, and the authorities should act as quickly as possible upon the 54 completed studies of public enterprises. Otherwise, the budget relief expected from an improvement in the operations of the public sector enterprises would not be felt. He noted that SONICHAR's financial position had improved as a result of rescheduling by Paris Club creditors but that other creditors had not yet provided comparable reschedulings. Could the staff clarify the nature of those other credits and the progress toward their rescheduling?

Second, Mr. Shaw considered that an important factor in the medium-term outlook for Niger's economy was its investment program. In October, during the Executive Board discussion of Niger's request for the stand-by arrangement, his chair, among a number of others, had placed particular importance on the World Bank's review of the investment program. The staff analysis of development planning and investment activity in Part III of the report on recent economic developments should serve as a model in analyzing similar problems of other member countries. Nevertheless, his main concern was the apparent slowness of the World Bank in meeting Niger's requirements. A joint Bank-Fund mission had visited Niger in December 1983, and a World Bank mission was expected to leave for Niger in May; the authorities had also requested a structural adjustment credit from the World Bank. He recognized that the World Bank was unable to move with the same speed as the Fund, but he hoped that the "very near future" in which, as Mr. Alfidja had put it, the Government would like to reach an agreement on a structural adjustment loan with the World Bank did not mean a year or longer. Perhaps the Board was not the appropriate forum to discuss the activities of the World Bank, but it was his impression that agreements on structural adjustment loans had often taken longer than seemed necessary. He asked the staff if it could comment on how quickly it saw the World Bank agreeing on such a loan for Niger.

The main difficulty facing Niger was the debt service burden, which the staff described as increasing over the four years ahead, Mr. Shaw observed. If adjustment in the medium term were to be successful, both debt rescheduling and concessional assistance would be required. The financing gap would exceed SDR 25 million in 1985 and 1986, during which the Fund would be one of Niger's largest creditors, with repurchases approaching SDR 20 million in 1987 and 1988. Without prejudging the future role of Fund financing after the completion of the current stand-by arrangement, he believed that Niger exemplified the case in which the Fund should play a catalytic role in mobilizing the required resources from both multilateral and bilateral development institutions. The Fund itself would not be able to assume a direct role in providing development assistance for Niger.

Mr. de Vries remarked that Niger's situation was at the same time interesting and typical. In the past, a substantial rise in exports, expecially of uranium, had been accompanied by a large increase in domestic expenditure, including investment spending. When the boom had collapsed, the authorities had financed continued domestic expenditures by building up foreign debt. It was heartening to see them coming to grips with the consequences, and trying to adjust not only demand but also the structure of the economy to more realistic and sustainable prospects for export receipts. It was always tempting to try to maintain a higher level of investment by means of price supports, subsidies, and other controls, but, in the end, such attempts inevitably failed. Therefore, he welcomed the supply-side and medium-term orientation of the Nigerien authorities' policies.

Much remained to be done, however, Mr. de Vries said. The staff representative had informed the Executive Board that studies had been completed on no fewer than 54 public enterprises, which were of course the central problem. The content of those studies would have to be weighed and acted upon where appropriate. In its appraisal, the staff had in fact pointed out that although the rehabilitation of the parastatals had gained momentum, the authorities would need to launch a comprehensive program of reform in that sector, before the 1984/85 fiscal year. However, to implement such a program would call for concrete measures, as part of a demanding but in the long run productive undertaking. The reform of the parastatal sector should mean that investment could be geared to profitable lines of activity. Thus, he was less concerned than others about the cut-backs in the investment program. One investment was not equal to another: some investments would yield a positive return, and some would fail to do so. As long as the Nigerien Government was taking the bull by the horns, and refusing to invest in unprofitable projects, it would be taking what he considered constructive action.

The problem calling for urgent attention was the increasing debt service burden over the next four years, Mr. de Vries noted. Further adjustment in the external account would be necessary. The recognition of those problems, and the fact that both the Fund and World Bank had been providing Niger with technical assistance, offered hope for the future. The immediate task was to find a way to use to advantage the momentum toward major structural adjustment that had been gained. He was glad that the Fund, in its modest way, could support the authorities' adjustment efforts. At the same time, he looked forward to seeing the difficult measures that were necessary to take on concrete shape in the months to come so that Niger's economy could be returned to a path of sustainable growth, based on a realistic appraisal of the circumstances in which it found itself.

Finally, on a more technical point, Mr. de Vries observed that the slightly less favorable outturn of the government finances than expected was attributed at one point in the staff report to an increase in foreign loan disbursements, whereas the main cause mentioned in the report on recent economic developments was the larger than expected decline in revenues. As Mr. Alfidja had noted, foreign assistance led to domestic expenditure, which might account for part of the deterioration in the Government's financial position.

Mr. Blandin considered that the staff had given a clear and candid picture of Niger's current situation, showing that the program had remained on track, all the performance criteria having been met. Those results were not due to an improvement in the external environment; they undoubtedly reflected the authorities' firm commitment to a successful program and to the strength of their adjustment effort, for which they were to be commended.

However, the price in terms of real growth had been high; the rate of growth of real GDP in 1984 had been revised downward to only 1 percent; with an annual rate of population growth of about 3 percent, that meant another reduction in per capita GDP for the fourth year in a row.

Obviously, the adjustment achieved so far had been the result of drastic cuts in imports and in the investment program, and had been focused mainly on demand management, Mr. Blandin noted. In order to achieve a necessary resumption of economic growth, it was indispensable that the emphasis be shifted to the supply side of the economy. Too much reliance on demand management could be counterproductive, as was evident, notably, from the leveling off of receipts from customs duties and other fiscal instruments, despite all the new tax measures that the authorities were courageously implementing.

The outlook on the supply side was not as bleak as might be imagined, Mr. Blandin commented. First, the investment effort launched in the wake of the uranium boom, however overblown it might have been, had not resulted, as was too frequently the case, in an accumulation of "white elephants." To be sure, too much emphasis had been given to infrastructural projects of only indirect benefit, but some of those completed projects would certainly prove helpful in implementing more productive investments. Second, the authorities had already taken a number of decisive steps to resolve the problems of public enterprises. Some of the decisions had required courage because they had implied laying off many employees. Moreover, a number of the studies under way in the public sector had been completed, allowing the authorities to proceed further with the reform of the parastatals.

In that connection, the involvement of the World Bank was particularly welcome, Mr. Blandin stated. Although he had noted that a World Bank team would be going to Niamey in May, with a view to discussing a structural adjustment credit, he could not but regret that the lending program for Niger did not provide for approval of that credit by the Executive Board of the World Bank before FY 1986, namely, after July 1, 1985. As Mr. Shaw had indicated, the delay would be much too long and once again showed the difficulty of applying too rigidly the catalytic principle at a time when, for various reasons, other international organizations might not be in a position to provide enough financial assistance to the less developed countries. Therefore, contrary to the views of Mr. Shaw and Mr. de Vries, he believed that the Fund should not limit itself to a purely catalytic role.

Further programs under Fund arrangements for Niger would in any case have to be more structural, Mr. Blandin concluded. He was therefore persuaded that an extended arrangement would provide a more adequate framework for the pursuit of Niger's adjustment effort in the three years ahead. He had found some justification for an extended arrangement in the staff report itself, where it was stated on page 23: "With the continuation of strong adjustment policies, Niger should be able to attain a viable balance of payments situation in the medium term, along with reasonable rates of growth and financial stability." After a successful stand-by arrangement, the best way to ensure the continuation of an adjustment policy in the medium term would be an extended arrangement. Such an arrangement for Niger should be all the easier to put together, sound structural policies already having been established in a number of areas, especially with respect to producer prices in the agricultural sector. It was not by chance that, despite the drought, Niger had remained broadly self-sufficient in food production, and had even exported some quantities of food to neighboring countries. He would therefore be interested to have the staff's views on the possibility of an extended arrangement for Niger.

Mr. Finaish stated that the Nigerien authorities had clearly achieved progress in 1983 in their efforts to redress the financial imbalances that had been facing the economy in recent years. The sharp reduction in the balance of payments deficit, the containment of the fiscal deficit, the deceleration in the rate of price increase, and the reported improvement in the financial management of public enterprises were steps in the right direction. The outcome reflected determined adherence to the adjustment policies envisaged in the program. With respect to the budget, a notable development had been the larger than programmed reduction in current expenditures. However, because foreign loan disbursements had been higher than expected, the Central Government's development expenditures and overall deficit, as a proportion of GDP, had been larger than initially estimated.

In the external sector, the targeted reduction of the current account deficit, including grants, had been surpassed; excluding grants, performance had been broadly in line with the program objective, Mr. Finaish continued. The improvement reflected not only the pursuit of tight financial policies, but also a larger than expected decline in imports. However, the latter decline had also adversely affected budget revenues.

The most disappointing development in 1983 had been the fall in real GDP for the second year in a row, in spite of the modest growth in agricultural and manufacturing output, Mr. Finaish considered. The fall in uranium output had been largely responsible for that development.

During the remaining period of the arrangement, Mr. Finaish remarked, the revised program for 1984 was aimed at consolidating the gains achieved so far. The program's objectives, which included a substantial reduction in the overall treasury deficit and a lower than initially envisaged external current account deficit, seemed appropriate. The focus of policies would continue to be on the imbalance in government finances. The adjustment burden was still expected to fall on the expenditure side, since despite the package of tax measures envisaged in the 1983/84 budget, revenues were expected to increase at a slower rate than initially projected, due in part to the decline in taxable imports.

Moreover, Mr. Finaish went on, he had noted from Table 4 that the program envisaged a sizable reduction in development expenditures in 1983/84, apparently reflecting one aspect of the dilemma facing the authorities in their adjustment endeavor. As had been mentioned during the previous discussion in the Executive Board of Niger's stand-by arrangement, in their quest to achieve a more balanced growth pattern, the Nigerien authorities needed to diversify the economy away from uranium. To do so would require large investments and, hence, imports of capital goods, but present financial constraints were imposing cutbacks in investment and delaying the diversification process. It was true, as Mr. de Vries had mentioned, that not all investment projects were equal.

The further reduction in the external current account deficit was expected to result from a fall in the trade deficit, Mr. Finaish commented, reflecting a further compression of imports associated with the deceleration in domestic credit expansion, higher taxes on imports, and lower budget expenditures.

In sum, Mr. Finaish stated, the 1984 program involved a number of adjustment measures that, if fully implemented, should lead to the achievement of the objectives set forth in the staff report. In that connection, he had noted, with other Directors, the staff's view that "on balance, the adjustment is being achieved through more austere demand management measures rather than through improved performance on the supply side." At the same time, the authorities were also well aware that in view of the structural nature and scope of the imbalances, their correction could be contemplated only in the medium term. It seemed clear that sustained efforts would be needed to deal with those imbalances, particularly on the supply side of the economy. In conclusion, he supported the proposed decisions.

Mr. Delgadillo noted that Niger's recent economic problems derived from continued overdependence on one export commodity, which accounted for more than 80 percent of export earnings, and from a weakening of world demand for that commodity. The deterioration of Niger's economic and financial situation was also to be explained by the implementation of expansionary financial policies. In addition, the staff had pointed out that the economy had been adversely affected by a poor harvest, due to unfavorable weather, and a sharp deterioration in the external terms of trade.

The current financial program had been adopted in order to reduce the country's large financial imbalances, Mr. Delgadillo recalled. Some positive adjustment measures had been taken by the authorities, with the aim of restoring viable balance, both in the fiscal and monetary areas, and eventually of scaling back investment to a more appropriate level. In the external sector, he noted with concern that the improvement in the current account had been achieved at the cost of a considerable decrease in imports, a tendency that would continue throughout the program.

He welcomed the intention of the Government to continue the adjustment process in 1984, with reductions in the fiscal deficit and restraints on domestic credit expansion, Mr. Delgadillo said. In that sense, the program of reform for the parastatal sector, if adequately implemented, would imply an important improvement in the financial performance of public enterprises.

He had noted with satisfaction that all performance criteria had been observed for the quarter ended December 1983, Mr. Delgadillo remarked, reflecting the strong commitment of the authorities. He agreed with the staff that the financial program for the remaining months of 1984 was adequate to achieve the needed adjustment. Finally, he supported the staff's recommendation that the Executive Board approve Niger's request for a modification of the ceiling under the program on foreign borrowing. The change was small and would allow Niger to mobilize some loans for essential projects. He endorsed the proposed decisions.

Mr. Suraisry observed that all the performance criteria for end-December 1983 had been met, and good progress had been made toward controlling inflation. However, the economic imbalances remained large. The difficult task still faced by the authorities in correcting those imbalances was complicated by debt service payments that were already high by any standard and were projected to increase sharply over the coming few years. Under such conditions, he agreed with the staff that there was little room for nonconcessional foreign financing of the financial gap. It was important to take account of that fact if debt obligations were to be brought in line with the country's capacity to repay them, and if the moderate growth target under the program were to be achieved. While under the circumstances Niger might need to have recourse to domestic bank credit, the extent to which it did so should be watched most carefully. In that connection, he had noted the downward revision in the ceiling for credit to the nongovernment sectors. He wondered how greatly private sector activities would be affected; it would be helpful to have the staff's comment.

He commended the authorities' efforts to reduce the overall fiscal deficit, Mr. Suraisry continued. Despite depressed economic conditions, they were taking courageous measures to reduce fiscal imbalances. He supported in particular the efforts to limit public investment to projects already being carried out. The process of rehabilitating the parastatals, which the authorities had already begun, was both necessary and commendable. The rehabilitation of the public enterprise sector should contribute greatly to the adjustment effort and set the stage for a better economic performance.

He had noted the emphasis given to the productive sector in the 1984-85 investment program, as well as the doubling of the rural sector's share of investment, Mr. Suraisry commented. Together with appropriate producer price policies, the effect should be to broaden the base of the productive sectors and stop, or at least slow, migration from rural areas.

Referring to external policies, Mr. Suraisry remarked, although it would be important to avoid recourse to nonconcessional borrowing, the modification of the ceiling on certain loans for essential projects was justifiable under the circumstances. He therefore supported the proposed decision modifying the stand-by arrangement. It was his hope, however, that there would be no need for further such modifications.

He had taken note of the Nigerien authorities' interest in further use of Fund resources to continue their adjustment effort over the medium term, Mr. Suraisry said. On the basis of total Fund holdings of Niger's currency, and the size of the imbalances, the Fund should be able to help; as a matter of fact, its financial help was crucial. On the assumption that the authorities would continue the determined and vigorous adjustment effort that they had started, he would be favorably disposed to consider a request from Niger for further Fund assistance.

Mr. Shaw remarked that he had not intended to suggest that he was against further Fund assistance to Niger. On the contrary, the medium-term adjustment measures that the Nigerien authorities would be taking should bring an extended arrangement within their reach, an approach that he would welcome. His point had been that the Fund should not be the primary source of financing of the balance of payments gap that would exist over the coming three to four years. Rather, the Fund should be playing a catalytic role--as it did for other countries--with respect to encouraging commercial banks to lend to Niger, and financial institutions, such as the World Bank and bilateral donors, to provide additional financing. In paragraph 16 of the Memorandum on Economic and Financial Policies, it was indicated that a large proportion of the drawings to be made from the Fund under the stand-by arrangement--CFAF 6 billion out of CFAF 17.5 billion--would go to increasing gross official reserves. If total drawings on the Fund were reduced by the amount of the purchase under the compensatory financing facility, the proportion of Niger's drawings under the credit tranches that would serve to increase its reserve position would be even greater. He considered that to be appropriate use of Fund resources; what he would not find appropriate would be use of Fund's resources as a primary source of development finance in the period in question.

Mr. Williams said that he was in broad agreement with the staff appraisal and could support the proposed decisions. He was somewhat concerned, as he would explain, with the proposed modification of the performance criterion relating to external borrowing on nonconcessional terms.

Performance to date under the stand-by arrangement had been generally satisfactory, and all performance criteria had been observed, Mr. Williams noted. A comprehensive set of fiscal measures had been adopted as part of the current adjustment effort. Expenditures had been adjusted downward, but not, in the event, sufficiently to compensate fully for the shortfall in revenues. As a result, the target for the central government deficit had been revised upward from 3.4 percent of GDP to 4.2 percent of GDP in the current fiscal year, still a significant improvement from the deficit of 7.3 percent of GDP recorded in 1982/83. He welcomed the decision of the Government to increase the already substantial target for the cash reduction of domestic arrears by a further 18 percent to CFAF 10.5 billion, thereby virtually eliminating such arrears to local enterprises.

Progress to date in reforming the parastatals was also welcome, Mr. Williams considered, and he would urge the authorities to persevere and to implement such further reform as might be required on a timely basis. His authorities had read with interest the conclusion of the joint World Bank/Fund investment review mission, and would agree that the revised 1984-85 consolidation plan was more appropriate to Niger's current development requirements and resource constraints.

With respect to supply policies, Mr. Williams continued, the authorities had pursued agricultural policies and taken producer pricing decisions suited to the needs of the economy. The policy stance had been successful, as evidenced by the growth of both agricultural and livestock production at a compound annual rate of about 3 percent over the past five crop years, a rate slightly in excess of the population growth rate. It was a particularly noteworthy achievement, considering Niger's physical limitations as a Sahelian country. In that context, he could not help but note that one of the measures to improve the finances of Niger's Grain Marketing Office (OPVN) had been arrangements worked out to supply grain to neighboring countries.

The medium-term analysis in the staff report provided a useful framework within which to evaluate the current adjustment program, Mr. Williams considered. In future such presentations, he would like to see more analysis of the policy trade-offs necessary to achieve a more rapid balance of payments adjustment. Niger's projected financing gap in 1985-88 should on average equal only 5.5 percent of imports. He asked the staff to examine in future the kinds of policy changes that could increase export growth and reduce the growth of imports in order to reach a sustainable balance of payments position more quickly. The World Bank would seem to be especially qualified to tackle that question.

His reservations relating to the proposed modification of the performance criteria, Mr. Williams explained, arose because half of the proposed borrowing for less than 12 years would be to finance construction of a road. Prudence would dictate that, at a minimum, the tenor of the financing of infrastructural projects should match the prospective useful life of the project. Typically, in developed countries, roads and similar infrastructural projects were financed by long-term bonds with maturities of 20 years or more. It was somewhat hard to understand why governments of developing countries, whose financial situation was more precarious, would be contracting debt for comparable purposes on shorter maturities. The observation in the staff appraisal that, even with the proposed loans, the maturity structure of foreign debt would improve, seemed to beg the question whether the improvement might not have been even greater in the absence of those loans. However, he would support the proposed modification of the performance criterion.

Mr. Malhotra said that he supported the proposed decisions. He associated himself with those Directors who had stated that it would be useful for the Fund to consider an extended arrangement for Niger.

The staff representative from the African Department explained that the debt service payments that had not been rescheduled were all due to multilateral creditors, including the Islamic Development Bank, the Arab Development Bank, and the West African Development Bank (BOAD). The authorities had been carrying on a dialogue with multilateral creditors, which were however hesitant to reschedule debt service payments. Nevertheless, Niger had received subtantial relief from all but one of its Paris Club creditors, and from the rescheduling of public debt service payments owed to foreign banks, as mentioned in EBS/84/66, Supplement 1. In addition, the two other measures mentioned in the supplementary paper--the increase in SONICHAR's power tariffs to the mining sector, which for its part had agreed to buy more power from SONICHAR--would have significantly favorable financial effects.

As for the investment program, and the pace at which the World Bank was proceeding with its own initiatives in that area, the staff representative continued, 30 of the 54 studies on various parastatal enterprises that had been completed were already in the hands of the World Bank, which was examining them in order to help the authorities formulate the reform program. It was also important to note that the IBRD team to visit Niger in mid-May would be considering how to put in place the two pillars of any medium-term adjustment effort: the parastatal reform, and a good medium-term investment program. It was difficult to say how long it would take for the World Bank to complete its studies in those two areas, but it was worth noting that the Bank had been extremely active over the past six months in gathering material and assigning additional staff to the work under way on Niger.

In the staff report on recent economic developments, the program estimates and preliminary actual figures on the Central Government's financial operations covered only the 1982/83 fiscal year, the staff representative explained. Net drawings on the external side, taking into account project-related drawings, had in fact been higher than expected, and it could thus be said in a sense that the deficit had been artificially widened because of the relationship between increased loans and expenditure. However, the staff report itself provided a more accurate and up-to-date picture: the program figures and the preliminary actual program figures for 1983/84 showed roughly no change. The revised program figures for revenue, however, showed a larger fall than had been expected, despite all the measures put in place, although a higher figure had been included for external debt relief.

The policy question facing the staff in devising the 1983/84 program at the time of the midterm review had been how to deal with the revenue shortfall in the absence of any further room for extensive cuts in spending that would have an immediate effect, the staff representative recalled. The only solution had been to allow for an increase in the balance of payments deficit; the question then was how large it should be, and whether it could be fully financed. In the event, enough financing had been found, on a commitment basis, not only to cover an additional payments deficit, but an additional reduction in arrears as well. The significance of being able to allow for a shortfall in revenue and for a further reduction in arrears was that if revenues held firm, it would not be necessary in 1984/85 to provide for such a large reduction in payments arrears, which could in fact be reduced significantly.

There was no ceiling on credit to the private sector, the staff representative continued, and to the extent that the Government kept within the ceiling on public sector credit, there would be a margin available under the global ceiling to finance private sector activities. In point of fact, based on the structure of private credit in the past, the brunt of the curtailment of credit would fall on trading and construction activities. The logic of the program was that imports would fall, as would external trade and commerce in general. With the reduction in economic activities in general, construction would however be a much less important component in the infrastructural investment program than in earlier years. There would still be ample provision for financing crops and other private sector activities.

As for the possibility of an extended arrangement for Niger, the staff representative remarked, an attempt had been made in the staff report to outline a policy framework for such an arrangement. First, the staff had mentioned the completion of studies on the parastatals but had made it explicit that they would have to be followed up by a solid effort at reform. Second, significant tax measures had been taken under the current program, but revenue could not be expected to increase immediately at a time when the economy was depressed, food crops were poor, and there were cutbacks in external receipts. It would be essential, under a more medium-term program, to have in place a tax structure under which revenue would rise when economic activity recovered. Third, investment policy would also have to be given close consideration. Several Directors had indeed expressed concern about the leveling off or decline of investment. The authorities themselves were anxious to make productive investments that would promote economic diversification and external adjustment. The fact that the share of agriculture in the new version of the investment plan had doubled, compared with a large shortfall in programmed investment in agriculture in previous years, indicated that the authorities felt that they could make more efficient use of the limited resources available to them for investment. Collaboration between the Nigerien authorities and the World Bank in order to focus the investment program for each year within the framework of the budget and with a view to selecting projects that would pay off would be a key element of a successful investment policy.

Financing for a specific investment project, based on the initial calculations of its cost, was always closely watched by the staff, the staff representative explained. Frequently, however, there were shortfalls in the original donor's financing, and the authorities themselves were often not able to make up the difference. The loans to become available as a result of modifying the performance criteria would cover such marginal financing needs. Another aspect of the road project was that it was but one segment of a network of roads that had already been built and paid for by donors. Unless the remainder of the financing for that one part of the system were forthcoming, the entire road system would remain unfinished.

The Nigerien authorities were greatly concerned about the debt service situation, the staff representative from the African Department went on. The medium-term scenario, which was bleak, showing that it would take until the end of the decade to reduce the current account deficit to sustainable levels, had been the subject of long discussions with the authorities, who were still somewhat hesitant to accept it. Thus, the staff had considered it advisable to allow for a little flexibility on one type of loan.

Mr. Alfidja remarked that, in many instances, Fund members were being penalized by the requirement that a country, even when it was committed to adjustment, should be granted a medium-term arrangement with the Fund only if it had an investment program approved by the World Bank. The slowness of the World Bank to synchronize its approval of programs with requests by countries for a Fund arrangement had often led the management of the Fund to take the initiative in proposing meetings with the World Bank in an attempt to speed up the latter's work in a country. An increasing number of visits by World Bank staff had been made to Niger. But missions, like investment projects, were not invariably of great value. At times, they were a convenient way to delay final decisions.

The next Fund mission to Niger should consider seriously an extended arrangement for the member, Mr. Alfidja considered. The staff of the Fund and of the World Bank had agreed on a two-year investment program going beyond 1986. Measures had been taken to reform the parastatals, including the seven most important ones. Not all of the 54 enterprises on which studies had been completed were in difficulty; the large number of studies was a reflection of the authorities' wish to have a comprehensive view of the entire public enterprise sector. He was confident that the interministerial committee set up to review the recommendations of those studies would make its views known in the near future, and that the Government would act upon them, where appropriate. The authorities recognized that they could not afford to support inefficient enterprises at a time when budget revenue was falling, inter alia, because of problems in neighboring countries, the effect of which should not be underestimated.

As mentioned in paragraph 19 of the Memorandum on Economic and Financial Policies attached to the letter from the Prime Minister, Mr. Alfidja pointed out, the loan for the road project accounted for only half of the loans to be contracted within a maturity range of zero to 12 years. Niger was a landlocked country, and the road project was not a new one; it was part of a system designed with the assistance of the European Community and other friendly countries in order to provide easy connections to neighboring countries, from Mali to Lake Chad. Part of the project had initially been financed by Canada, which had agreed to put up an additional amount of $4 million to keep the road network in place.

He understood that Niger could expect to receive another Fund mission shortly, to discuss the budget for the next fiscal year, and in order to work on a new program, Mr. Alfidja said. At that time, he felt that the Nigerien authorities would take into account the comments made during the present discussion. Certainly, he had been relieved to hear Mr. Shaw's explanation of his understanding of the Fund's catalytic role; it offered some assurance of flexibility on the part of the Fund in carrying out its its role as a catalyst for other financing.

The Executive Directors agreed to resume the discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/61 (4/19/84) and EBM/84/62 (4/23/84).

4. OVERDUE PAYMENTS TO THE FUND - PERFORMANCE CRITERION UNDER STAND-BY AND EXTENDED ARRANGEMENTS

1. Paragraph 4(d) of the form of the stand-by arrangement in Attachment A to Decision No. 6838-(81/70), adopted April 29, 1981, shall be amended to read as follows:

> "during the entire period of this stand-by arrangement, while (member) has any overdue financial obligation to the Fund, or if (member)
>
> (i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or
>
> (ii) introduces [or modifies] multiple currency practices, or
>
> (iii) concludes bilateral payments agreements which are consistent with Article VIII, or
>
> (iv) imposes [or intensifies] import restrictions for balance of payments reasons."

2. Paragraph 4(d) of the form of the extended arrangement in Attachment B to Decision No. 6838-(81/70), adopted April 29, 1981, shall be amended to read as follows:

> "throughout the duration of the extended arrangement, while (member) has any overdue financial obligation to the Fund, or if (member)

(i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or

(ii) introduces [or modifies] multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes [or intensifies] import restrictions for balance of payments reasons."

3. Other stand-by arrangements involving the use of the Fund's resources in the upper credit tranches and other extended arrangements granted by the Fund after the date of this decision shall also include the provision in 1 or 2 above.

4. The provision in 1 or 2 above shall also be included in an existing stand-by or extended arrangement when the Fund and the member reach understandings regarding the circumstances in which further purchases may be made under the arrangement. (SM/84/82, 4/18/84)

Decision No. 7678-(84/62), adopted
April 20, 1984

5. BURUNDI - TECHNICAL ASSISTANCE

In response to a request from Burundi for technical assistance, the Executive Board approves the proposal set forth in EBD/84/120 (4/19/84).

Adopted April 20, 1984

6. THE FUND, COMMERCIAL BANKS, AND MEMBER COUNTRIES - PUBLICATION

The Executive Board approves the proposals for the publication, in the series of Occasional Papers, of a paper by a consultant to the Managing Director entitled "The Fund, Commercial Banks, and Member Countries," as set forth in EBD/84/107 (4/2/84), Correction 1 (4/2/84), and Supplement 1 (4/20/84).

Adopted April 19, 1984

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/81 (4/18/84) and EBAP/84/82 (4/19/84), and by an Advisor to Executive Director as set forth in EBAP/84/82 (4/19/84), is approved.

APPROVED: October 1, 1984

LEO VAN HOUTVEN
Secretary