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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/70

10:00 a.m., May 2, 1984

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

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	G. Ercel, Temporary
B. de Maulde	
A. Donoso	M. Teijeiro
R. D. Erb	
	M. B. Chatah, Temporary
	T. Yamashita
J. E. Ismael	
R. K. Joyce	L. Leonard
A. Kafka	C. Robalino
G. Laske	
	N. Coumbis
	I. Angeloni, Temporary
	A. S. Jayawardena
	E. M. Ainley, Temporary
	T. de Vries
	H.-S. Lee, Temporary
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
M. A. Senior	
	K. A. Hansen, Temporary
	T. A. Clark
Zhang Z.	

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

Also Present

Bertrand Ledoux, IBRD. African Department: J. B. Zulu, Director; R. J. Bhatia, Deputy Director; L. M. Goreux, Deputy Director; E. L. Bornemann, E. A. Calamitsis, R. O. Carstens, F. d'A. Collings, I. A. H. Diogo, M. G. Gilman, A. Jbili, J. W. Kratz, M. Sidibe. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; M. Duran-Downing, M. Guitian, S. Kanesa-Thasan, W. S. Tseng. External Relations Department: Z. Zhang. Fiscal Affairs Department: J. F. Garnier, C. Schiller. IMF Institute: A. Bamba, Participant. Legal Department: J. V. Surr. Research Department: R. A. Franks. Western Hemisphere Department: C. Brachet. Bureau of Statistics: B. Konan, K. Yao. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: C. J. Batliwalla, L. Ionescu, W. Moerke, J.-C. Obame, I. R. Panday, D. I. S. Shaw, N. Toé. Assistants to Executive Directors: J. R. N. Almeida, J. Bulloch, M. Camara, M. Eran, C. Flamant, V. Govindarajan, D. Hammann, H. Kobayashi, A. Koné, G. W. K. Pickering, T. Ramtoolah, A. A. Scholten, S. Sornyanyontr.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Nikolaos Coumbis, Alternate Executive Director, to the Executive Board.

2. IVORY COAST - 1984 ARTICLE IV CONSULTATION, AND REQUEST FOR STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1983 Article IV consultation with Ivory Coast and a request for a stand-by arrangement for Ivory Coast in an amount equivalent to SDR 82.75 million, together with proposed decisions (EBS/84/81, 4/6/84; and Cor. 1, 4/25/84). They also had before them a report on recent economic developments in Ivory Coast (SM/84/81, 4/19/84).

The Deputy Director of the African Department informed Executive Directors that during the first quarter of 1984, CFAF 63 billion had been transferred from the Agricultural Price Stabilization Fund (CSSPPA) to the Caisse Autonome d'Amortissement (CAA), compared with the target of CFAF 67 billion shown in Table 4 on page 45 of EBS/84/81. The balance of CFAF 4 billion had been transferred on April 3, 1984; since then, further transfers amounting to CFAF 10 billion had been made. Moreover, a short-term loan for the prefinancing of coffee and cocoa exports had been signed that morning in Paris: CFAF 10 billion would be transferred to the Treasury for the payment of arrears and $50 million, equivalent to CFAF 20.7 billion, would be transferred to the CAA for servicing the external debt. Since interest and charges on the short-term loan would be paid by the CSSPPA, the remaining amount to be transferred by the CSSPPA to the CAA and to the Treasury was CFAF 90 billion, which represented only 45 percent of the projected transfers for 1984. Those transfers were an essential element of the proposed program for 1984, and they had been made on schedule so far.

Arrears on the external debt had been reduced from CFAF 54 billion at the end of 1983 to CFAF 35 billion on April 26, 1984, the Deputy Director stated, if the amounts subject to the request for debt rescheduling were not counted as arrears. After disbursement by the CAA of the transfers of CFAF 10 billion and $50 million to which he had already referred, arrears on external debt should be substantially reduced.

In paragraph 7 of the letter of intent, the Deputy Director remarked, it was indicated that bus fares and water charges would be raised by 25 percent no later than April 25, 1984. Those increases had been approved by the Government, but the President had to announce them at the next meeting of the national council, which was expected to be held shortly.

For the stand-by arrangement to become effective, the Deputy Director noted, certain conditions had to be met. First, four conditions remained to be satisfied before the second tranche of the second structural adjustment loan (SAL II) by the World Bank could be disbursed. First, a new investment code would have to be adopted. Second, quantitative import restrictions would have to be abolished and replaced by temporary tariff surcharges. Third, a scheme to subsidize nontraditional exports, based on value added, had to be introduced. Fourth, SOGEFIHA and SICOGI--two of the three public enterprises dealing with the housing sector--would have to make selective increases in rents. He had been told by the staff of the World Bank that those conditions were likely to be satisfied by the end of May.

The Paris Club was expected to consider Ivory Coast's request for debt rescheduling on May 3 and 4, the Deputy Director noted. On April 6, 1984, the Steering Committee of the London Club had made its first proposal for rescheduling the principal due by Ivory Coast during the two consecutive calendar years from December 1, 1983 through December 31, 1984 (tranche A), and from January 1, 1984 through December 31, 1985 (tranche B). The banks involved had made it clear that the Steering Committee's rescheduling proposal was subject to the stand-by arrangement with the Fund becoming operational.

An additional sentence should be added to paragraph 2 of the draft decision on the stand-by arrangement, the Deputy Director of the African Department stated. It should read "...and (c) for the planned increases in mass transit fares and water charges."

Mr. Alfidja made the following statement:

> Since independence, the Ivory Coast authorities have pursued a firm policy of economic development that has emphasized agricultural diversification and expansion. In the mid-1970s, the economy realized substantial agricultural surpluses, particularly from the boom in export prices for cocoa and coffee. This led to a large increase in the country's investment program in order to expand the industrial base and develop the economy's infrastructure. Simultaneously, the authorities vigorously pursued the exploration of mineral resources, especially crude oil. A large decline in international commodity prices and a sharp increase in oil prices contributed to a deterioration in the terms of trade, which cumulatively amounted to 33 percent during 1978-80. Following a small surplus on the budget in 1977, the public sector deficit more than doubled in 1980. The current account deficit of the balance of payments widened almost fivefold between 1977 and 1980. Domestic credit expanded rapidly. The stock of foreign exchange reserves gradually dwindled, and sizable foreign loans had to be used for the continuation of the investment program.
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> It was against this background of growing internal and external imbalances that the Government decided to implement a three-year recovery program starting in 1981, supported by an extended arrangement with the Fund. The implementation of the program took place in an environment more severe than had been expected at the beginning of the program. As can be assessed from previous staff reports,

which the Board has had the opportunity to examine in the context of regular Article IV consultations and the reviews associated with the extended arrangement, the strength of the adjustment measures taken over the past three years was significant, viewed against the background of the recessionary climate in the international economy, the stagnation in world trade, and the depreciation of the CFA franc, which together with high interest rates have exacerbated the debt servicing problem.

The outcome of the program for 1981 was generally satisfactory. In late 1980 and early 1981, the authorities began implementing several measures, including upward adjustments in the tariffs for utilities and ground and air transportation fares, a higher tax on gasoline, and a downward adjustment in the salaries of employees of decentralized agencies. Reflecting in part the effects of the depreciation of the CFAF, export receipts expanded more rapidly than projected, and import growth was restrained. This outturn was chiefly responsible for the improvement that occurred in the current account position. In the fiscal field, despite a large shortfall in revenue arising from the pronounced deterioration in the terms of trade, the overall fiscal outturn was broadly in line with expectations. Central to the overall satisfactory fiscal achievement were the substantial cutbacks made in both current and capital expenditures. Domestic credit expansion and the rate of inflation decelerated.

During 1982-83, the implementation of the program was frustrated by the effects of the continued recession abroad and by persistently inclement weather. Total output in the real sector continued to decrease, partly a reflection of cutbacks in capital expenditures. The budgetary deficit widened in 1982, mainly because of another large shortfall in revenue. However, the fiscal imbalance was less pronounced in 1983. The external current account position improved somewhat during 1982 and 1983. Despite this, and largely because of a weak capital account, the overall balance of payments deficit continued to widen, especially in 1983. The debt service ratio continued to deteriorate markedly, risig from about 28 percent in 1981 to 36 percent two years later, a reflection of the decrease in export earnings, the depreciation of the CFAF, and the high level of interest rates mentioned earlier. In the monetary area, the greater recourse by the Government to bank credit for the purpose of financing the budget deficit in 1983 led to a more rapid expansion in credit.

As Directors might recall, measures were taken in 1982 and 1983 aimed at reinforcing the ongoing adjustment. For instance, in the fiscal field, a housing allowance was provided in lieu of a free residence, absentee employees were deleted from the payroll, education subsidies were cut, and the eligibility requirement for scholarships was tightened. No wage increase was granted either. Directors will also recall that the implementation of these measures has led to social disturbances, in the face of which the Government has shown resolve.

As stated by the staff, all the purchases under the program were made with the exception of the end-December 1983 purchase, which was conditional upon the observance of the performance criteria for end-September. Although the ceiling on credit to the public sector at end-September 1983 was not exceeded, the overall limit on net borrowing from the banking system was surpassed largely owing to the severe liquidity squeeze experienced by the Treasury arising from the sharp shortfall in tax revenue.

It has to be borne in mind, as already stated, that the implementation of the program during the last two years of the arrangement took place in a difficult international environment. However, the Government of Ivory Coast is determined to strengthen the gains made thus far in its efforts to restore a sound economic base. It is in this light that the authorities have adopted a new adjustment program in support of which they are requesting a one-year stand-by arrangement with the Fund.

The main macroeconomic objectives of the program are to reduce the overall fiscal deficit from 9.5 percent of GDP in 1983 to 3.6 percent of GDP in 1984, the external current account deficit form 10.6 percent of GDP to 7.2 percent of GDP, and the overall balance of payments deficit from 8.3 percent of GDP to 5.8 percent of GDP. It is assumed in this context that the recession will give way to a small economic expansion and that the terms of trade will improve rather substantially.

It is apparent from the program's quantitative objectives that the bulk of the adjustment effort is expected to come from the fiscal sector, largely through a resumption of revenue growth, since total expenditure is forecast to remain broadly unchanged from the 1983 level. Increased transfers from the cash crop marketing agency, along with a more rapid expansion of tax revenue associated with the anticipated recovery in economic activity, as well as higher coffee and cocoa export receipts are expected to be the main contributory factors to the projected growth in revenue. On the expenditure side, the Government has decided to freeze salaries and promotions for the second year running, and to reduce the number of scholarships and entries to some public schools. Likewise, the size of foreign technical assistance will be scaled down. With these measures, and a further pruning of capital outlays, total spending is expected to be restrained sufficiently to free resources for, inter alia, settling payments arrears.

Directors have observed during previous discussions on Ivory Coast that the restoration of viability in the public sector was crucially dependent on restructuring the public enterprise sector. My authorities are fully cognizant of the need to reduce the burden on the budget arising from the financial underperformance of several public enterprises. To this end, they have closed some unprofitable units. They have raised the prices charged for the supply of goods and services provided by others in order to reflect more adequately production costs. In any event, the 1984 budgetary support to be provided to 31 of the most important enterprises has been frozen to its 1983 level. The Government will continue to examine practical and appropriate remedies that could be applied to these public entities.

A number of Directors have also stressed the need for the Ivorian authorities to persevere with their adjustment efforts, and in particular, to review education policies. I wish to state that there is a meeting of minds on these subjects. Policies are being re-examined in several areas with a view to adapting them to changing realities. Despite the dampening effects of some of the adjustment measures on the standard of living of the population, the Ivorian authorities do not intend to relax their efforts. However, it is their view that their efforts are likely to be frustrated in the absence of increased external financial support. According to the Government, a decrease in net official capital inflows in 1984 and beyond, amounting to CFAF 220 billion or about 40 percent of imports in 1983, would seriously imperil the potential for economic growth in the years to come. It is for this reason that the Government attaches great importance to the financial assistance that creditors can provide within and outside the framework of the Paris Club. In particular, the Government hopes that the outcome of the Paris Club meeting scheduled for May 3 and 4 will be substantial debt relief.

In concluding, I wish to make two comments. The first is related to the phasing of purchases. It appears from Table 1 on page 3 of EBS/84/81 that the last purchase of the stand-by arrangement is expected to take place in January-March 1985 and that it is conditional on satisfaction of performance criteria for end-September 1984 and satisfactory completion of the second review envisaged for October 1984. On the basis of the most recent experience of Ivory Coast, data for end-September 1984 could be available in mid-December 1984, and Board discussion of the review could take place at the end of December. In these circumstances, I see no reason why the last purchase should take place only after February 28, 1985, as indicated on page 2 of the staff paper. Therefore, on behalf of my Ivorian authorities, I propose that the date of the last purchase be changed to read "after December 31, 1984" instead of "after February 28, 1985."

My second comment concerns the overall amount of the Fund's financial support for 1984 and the nature of future Fund programs with Ivory Coast. As for the first point, and given the strength of the measures being implemented by Ivory Coast, I wonder why it was not possible for the staff and management to provide more substantial financial support to Ivory Coast. As to the second point, given the structural nature of the problems facing the Ivory Coast economy, the staff may wish to explain why it seems to have a preference for one-year programs instead of an extended arrangement for Ivory Coast. In my opinion, a multiyear arrangement would have been more appropriate.

Mr. de Maulde said that he was in broad agreement with the staff appraisal. He could support the proposed decisions, with some reservations on the amount of the arrangement and the schedule of purchases.

Ivory Coast was unique because--apart from Gabon, a net oil exporter--it had the highest per capita GDP in sub-Saharan Africa, and a diversified economy that differed greatly from the economies of neighboring Sahelian countries. Ivory Coast had enjoyed, since attaining independence in 1960, remarkable political stability and competent management. Some projects had been oversized, but at the time they were launched, the external environment had seemed to justify them. Ivory Coast had been hit by the world economic crisis at the worst moment, when its economy had been right in the middle of the take-off process. And the country had been hit hard: its terms of trade had declined by 43 percent between 1977 and 1983, and real GDP had fallen by 8 percent between 1980 and 1983.

The Ivorian authorities had responded to those difficulties with great determination and had engaged, since 1981, in a strong adjustment effort, supported first by an extended arrangement and to be supported further by the stand-by arrangement submitted for the approval of the Executive Board at the present meeting, Mr. de Maulde continued. During the three years of the extended arrangement, from 1981 to 1983, the authorities had continuously strengthened their adjustment effort in an attempt to offset the adverse effects of a worsening external environment, which had made all the underlying assumptions of the arrangement seem too optimistic, year after year. The investment budget had been reduced by 25 percent in current CFA francs, and strict limits had been applied to spending under the current budget, despite the emergence of some internal difficulties, including, for instance, a teachers' strike against the termination of the free housing system. During the same period, an in-depth audit of public enterprises had been carried out, laying the ground for a number of reforms that were currently under way. It was safe to consider that, had there not been a severe drought in 1983, which had had a number of adverse consequences for real growth and the financial situation of the public sector, the extended arrangement would have been a complete success from the financial point of view.

The new program for 1984 appeared to be well designed to tackle the short-term as well as the structural problems affecting the Ivorian economy, Mr. de Maulde continued. As for the short-term aspects, the magnitude of the fiscal adjustment was impressive. The deficit of the public sector, broadly defined to include 31 public enterprises, would be reduced in 1984 by 6 percentage points of GDP, from 10 percent to 4 percent. The reduction would be attained on the expenditure side by means of a fall in capital expenditures in current CFA francs for the fourth year in a row, and the stagnation of current expenditures. Wages for civil servants would remain frozen for the second successive year; expenditures related to technical assistance would be scaled down; the public recruitment policy had been reformed, in particular with respect to the procedures for entering civil service schools. On the revenue side, the global effects of the various measures included in the program would be to increase budgetary receipts by 20 percent. It was particularly noteworthy that the Stabilization Fund would contribute CFAF 200 billion to the CAA, permitting a reduction of CFAF 166 billion in payments arrears, including the complete elimination of external arrears, which had amounted to CFAF 54 billion at the end of 1983.

The targets in the external sector were ambitious, Mr. de Maulde considered, because they provided for a decrease in the current account deficit from 10 percent of GDP in 1983 to 7 percent in 1984. To put those percentages in perspective, it should be recalled that the interest payments on Ivory Coast's external debt were currently 7 percent of GDP.

The structural aspects of the program were no less impressive, Mr. de Maulde stated. The pricing policy in the public sector had been adjusted, with a view to eliminating the deficits of public utilities: electricity tariffs and bus fares in Abidjan had been raised by 25 percent; railroad charges had been increased by 10 percent and the price of petroleum products by 8 percent. Moreover, the retail price of rice, a basic staple for the poorest part of the population, had been increased by 23 percent. Producer prices had been increased by sizable percentages for several products: 25 percent for cotton, 17 percent for coffee and cocoa, and 33 percent for paddy. The logical outcome would be increases in agricultural production with beneficial effects on the balance of payments. As for the rehabilitation of public enterprises, a number of far-reaching measures were being carried out, one of the most important being the closing down of two of SODESUCRE's least efficient sugar complexes.

Those various measures reflected the conditionality related to the World Bank's second structural adjustment loan to Ivory Coast, for $250 million, Mr. de Maulde observed. Ivory Coast was apparently benefiting from better than average cooperation between the Fund and the World Bank. The policies put together by the authorities should go far in allowing Ivory Coast to achieve a sustainable balance of payments position in the medium term, together with the resumption of some real growth. But those measures and policies would not be enough, if they were not matched by sufficient amounts of financing by the international community.

Ivory Coast offered a model for development in Africa, Mr. de Maulde considered, but in its present difficult circumstances it needed to count on the assistance of its friends. The courageous adjustment program being implemented involved high political risks. Industrialized countries would have to be forthcoming in providing Ivory Coast with the firm support that it obviously deserved. In passing, he mentioned that France had not skimped on its aid to Ivory Coast. New commitments from the Caisse Centrale de Coopération Economique had reached F 847 million in 1983, and had amounted to F 8.2 billion over the past five years. In 1982, official development assistance from France had represented 55 percent of ODA received by Ivory Coast.

The Fund might therefore have been expected to provide Ivory Coast with access to its resources in line with its usual policies, Mr. de Maulde stated. Yet the amount of access under the proposed stand-by arrangement, equivalent to only 50 percent of quota, seemed to fall below the lower limit of Ivory Coast's entitlement, considering the magnitude of its balance of payments need and the strength of its adjustment effort, the two basic criteria for determining access. Therefore, he strongly supported Mr. Alfidja's appeal to the Executive Board to reconsider the size of the stand-by arrangement. It would be helpful in that connection if the staff could remind him of the amount of access provided recently to other members, such as Sudan and Yugoslavia.

Like Mr. Alfidja, Mr. de Maulde mentioned, he had been most surprised to discover that the schedule of purchases under the arrangement had been devised in such a way as to entail a reduction by 25 percent of the amount of annual access for Ivory Coast. The last drawing would take place five and one half months after the related performance criteria for end-September 1984 had been fulfilled, namely, on March 15, 1985. As a consequence, Ivory Coast would be entitled to draw only 37.5 percent of its new quota--not 50 percent--in support of the program, which, as indicated on page 1 of EBS/84/81, covered the calendar and fiscal year 1984. He had not been convinced by the technicalities cited by the staff as justification for that unusual purchase schedule, and he therefore fully supported Mr. Alfidja's other request for bringing forward the date of the last purchase.

Mr. Leonard observed that fiscal deterioration and continuing weakness in the external account had marked the performance of the Ivory Coast economy in 1982 and 1983. World economic developments and unfavorable weather had been largely responsible. The authorities themselves had shown determination in managing the economy for most of the period covered by the extended arrangement, and more recently in planning and implementing fiscal and pricing measures and in reshaping investment expenditures. Their efforts, however, seemed to be less effective than they deserved to be because of a complex, diffuse, and what seemed to him to be a partly untracked system of public revenue and expenditure. For that reason, the steps being taken to improve the system--by means of special treasury expenditure accounts and by enlarging the coverage of the central accounts from 8 to 31 public enterprises--constituted a welcome movement in the direction of financial clarity and control.

Central elements of the program for 1984 were a reduction of the public sector deficit by 6 percentage points of GDP and a sizable improvement in the trade surplus as a result of a 21 percent increase in export earnings and close containment of the growth of imports, Mr. Leonard continued. The fiscal turnaround sought was large and difficult; its extent reflected in part the backloading of the expenditure-saving measures that were to have been taken during the extended arrangement and the regrettable slippage in their implementation in 1983. Overall, however, the fiscal measures had to be judged as no more than what was necessary to bring the economy back toward balance, although he feared that the contractionary effects of such measures might have been underestimated and that the growth rate of 3.5 percent in GDP envisaged in the staff report might in the event prove optimistic. Yet the balance of payments effects should be in the right direction.

Even if the external account in 1984 developed broadly on the lines projected by the staff, Mr. Leonard continued, the current account deficit would remain large for some time to come and would require extraordinary financing in 1984 and 1985. That prospect, and the fact that the debt service ratio was likely to remain above 30 percent for the rest of the decade, called for the authorities to pursue adjustment measures with determination for several years. The difficulties of the task were not to be underrated, especially when, as noted in the staff paper, the necessary measures, even if successful, were unlikely to lead to any increase in real income per capita before the 1990s.

The proposed program, being a critical step in a long process, would need to be closely monitored in its operation, Mr. Leonard considered. Accordingly, he welcomed the provision for two reviews, especially insofar as they bore on areas where there had been problems in the past.

In the key area of fiscal policy, Mr. Leonard added, he fully supported the authorities' decision to limit increases in the wage bill and in the cost of the scholarship program. He also welcomed efforts to direct scholarships to those studying in fields offering prospects of future employment.

Changes in the prices and tariffs of state enterprises, and the steps being taken to raise the efficiency of those agencies, should help to contain the growth of the financial burden on the Government, Mr. Leonard stated. At the same time, because essential government transfers to those bodies and their debt servicing payments in 1984 would be little different from those in 1982, it was clear that the financial future of many parastatals was still far from settled and would continue to demand the authorities' attention. He also wondered whether the savings expected from the reduction in the number of expatriate public sector employees would accrue as quickly as expected in the program, and whether the fiscal and balance of payments benefits would be correspondingly evident in 1984.

The Government had taken a number of useful revenue measures, Mr. Leonard noted. Substantial extra returns were expected from those measures, which, however, appeared to depend largely on a considerable improvement in Ivory Coast's terms of trade. Perhaps the staff could comment on how much of that improvement had occurred already and on how likely it was that the full 14 percent improvement would be realized in the course of the year.

On the supply side of the economy, it was encouraging to note the Government's commitment to the agricultural sector, self-sufficiency in food, the support of smallholders, and integrated rural development, Mr. Leonard said. It would be necessary to plan for a rate of growth of agricultural output of 6.5 percent in order to accommodate simultaneously the prospective substantial population growth, the reduction in food imports, and the expansion in major exports of agricultural products. The increases in agricultural producer prices were particularly commendable. He also welcomed the authorities' measures to remove quantitative import restrictions, and their replacement with lower tariffs as a step toward improving industrial efficiency.

Any reservations that he had expressed about the measures being taken to reduce the fiscal deficit concerned problems of implementation and the results that could be expected of them, in the short term at least, Mr. Leonard explained. The measures themselves were in the right direction and in the best interests of the Ivory Coast economy.

To conclude, Mr. Leonard considered, Mr. Alfidja's proposal to bring forward the date of the last purchase under the arrangement seemed reasonable. However, to provide the Fund with the necessary safeguard, he would like the final review to be carried out by the Executive Board before the end of December 1984. Otherwise, his chair generally agreed with the draft decisions and considered the proposed amount of the stand-by arrangement to be correct.

Mr. Laske stated that he endorsed the staff appraisal and he could therefore support Ivory Coast's request for a stand-by arrangement. In the 1970s, the economy of Ivory Coast had benefited enormously from price increases for its main export commodities. That favorable situation had been short-lived, but it had lasted long enough for the authorities to introduce and to pursue policies that were not viable in the longer run. Furthermore, when they adopted commendable adjustment measures, those in turn had not succeeded in fully protecting the economy from the repercussions of the prolonged world recession. The evidence was to be found in Table XLIV in Appendix III of the report on recent economic developments, which showed almost equal decreases in the value as well as the volume of principal exports in 1983.

In the years immediately ahead, Mr. Laske continued, the authorities would have to pay considerable attention to the external accounts. Due to Ivory Coast's membership in the West African Monetary Union (WAMU), the authorities could not follow either independent exchange rate policies or independent interest rate policies. No major policy changes in those respects were called for at present, as the staff itself had stated. Interest rates seemed to be positive in real terms. The brunt of the further adjustment effort would therefore have to fall on fiscal policy and in particular on the public sector enterprises.

As he had already mentioned, the assumptions on which the expired extended arrangement had been based had proved optimistic, owing to the severe effects of the recession in the industrial countries. Revenues had fallen significantly short of projections, but expenditures had initially continued almost unabated. Thus, the public sector deficit had widened considerably, and had been financed to some extent by external arrears. Consequently, Ivory Coast's credit standing with foreign lenders had been seriously damaged, and capital inflows had dried up. The major task before the authorities was to re-establish creditworthiness so as to renew the flow of foreign savings, probably for the time being in the form of rescheduled maturing foreign loans. Corrective fiscal action and the elimination of external arrears would be critical to the achievement of that primary objective. He had taken note of the statement by the Deputy Director of the African Department in that respect.

In the fiscal field, Mr. Laske went on, the authorities had apparently concentrated their efforts on raising revenue, although expenditure had already been restrained somewhat. It could be argued that holding expenditure to the 1983 level, as the authorities intended in 1984, did represent a significant adjustment effort. Table 6 in the staff report showed that current expenditure in nominal terms would be practically stable, with wages--the largest expenditure item next to interest--rising only marginally. The freeze imposed on public sector wages and promotions was largely responsible for that restraint, as were the cutbacks introduced in the provision of scholarships and the limitations placed on the educational system.

Although the aggregate operating deficit of the more important public enterprises was expected to decline by one third from the 1983 figure, Mr. Laske remarked, it would nevertheless be almost as high as two years previously. The staff's assessment of the situation of those public or semipublic enterprises--for instance, the sugar complexes, the oil refinery, and the railroad company--demonstrated that more needed to be done to put the enterprises on a profitable basis. While prices of the goods and services provided would have to be adjusted adequately, it might be of at least equal importance to make operational and managerial improvements that would keep costs under better control and strengthen the enterprises' capacity to generate profits.

On the revenue side, the Stabilization Fund would make the major contribution to the envisaged improvement, Mr. Laske commented. The expected rise in the Stabilization Fund's operating surplus, which would represent two thirds of the improvement in revenue, would be a reflection of better market conditions for Ivory Coast's main export commodities, coffee and cocoa. Therefore, he wondered whether the authorities could not intensify their other revenue-raising efforts, which, he suspected, provided a very small margin either for error or for unexpected developments. The fiscal measures listed in Table VIII of Appendix V to the staff report represented a conglomerate of 12 separate revenue items, most of which accounted for little individually. A few items would yield the lion's share of the increase in revenue, much of which would depend, at least in part, on the expectations for export prices materializing.

Although the deficit in the external account would be further reduced in 1984, the balance of payments position remained fragile, Mr. Laske commented, primarily owing to the dramatic fall in capital inflows in 1983, for which the staff report gave little explanation beyond the remark that it had been difficult to borrow abroad recently. Ivory Coast's room for maneuver was further circumscribed by the intention of the West African Monetary Union to protect its external reserves. Ivory Coast's debt profile would impose a tight economic policy on the Government for a number of years to come, if an orderly debt servicing process was to be feasible; even then, it was likely that continuous debt relief would be required. At the present point in time, Ivory Coast had an uncovered balance of payments financing gap of almost CFAF 200 million for 1984. Although the prospects for a Paris Club rescheduling and for the restructuring of bank loans were not unpromising, he would support the proposal that the stand-by arrangement for Ivory Coast be approved in principle only, to become effectively dependent on a favorable outcome of those debt relief exercises, as well as on the release of the last disbursement under the structural adjustment loan from the World Bank. He also supported the proposal by the Deputy Director of the African Department to add another condition, namely, satisfactory arrangements for the planned increases in transit fares and water charges.

At the end of his statement, Mr. Alfidja had commented on the nature and size of the stand-by arrangement, Mr. Laske noted. He himself believed that the proposed stand-by arrangement was appropriate in both respects, being commensurate with the strength of the authorities' adjustment effort. He was willing to consider Mr. Alfidja's proposal on the timing of the last drawing under the arrangement, subject to hearing the staff's views.

Mr. de Vries observed that the authorities had been carrying out a comprehensive program over a number of years, and the economy had been well managed. For whatever reasons--and they were in part due to the harshness of the turn for the worse in world economic activities--many of Ivory Coast's problems had been present at the beginning of the extended arrangement; they still existed, and the authorities proposed to solve them in the coming year. It was a worrying situation, but due account had to be taken of the considerable number of steps that the authorities had been taking. At the same time, they had run into a good deal of opposition to those steps, for obvious reasons. For instance, the difficult decision to change the educational system, which was turning out more highly educated people than the authorities could find employment for, represented a fundamental and courageous step but also a painful one. Such policy changes could moreover not be made quickly.

He had no concrete advice to offer to Ivory Coast on how it could carry out the needed fundamental adjustment more quickly and more efficiently, Mr. de Vries continued. So far, the authorities had been relying basically on brighter prospects for exports, which had in the event been even lower than expected. Nevertheless, efficient policies could go some way in limiting the damage inflicted on the economy, although it could not of course be completely undone. He joined other Directors in noting some policy shortcomings, especially with respect to public enterprises. In the description of those enterprises on pages 13-16 of EBS/84/81, the staff noted that despite a number of rehabilitation programs and efforts to improve the efficiency of public enterprises, which accounted for one fifth of GDP and dominated various important sectors of the economy--including energy, housing, and agriculture--the financial burden they imposed on the budget had been increasing rather than diminishing. Experience in many other countries showed that, although it was neither easy nor pleasant, it was indeed possible to make public enterprises more efficient, thereby alleviating economic difficulties. The costs, presumably including the foreign exchange costs of employing foreign teachers, could also be reduced as part of the authorities' educational policies.

He had been unable to discern from Mr. Alfidja's otherwise thorough and informative statement the reasons for expecting the successful outturn that had in earlier years been expected to materialize in 1984, Mr. de Vries commented. The overall public sector deficit was to fall under the program from 9.5 percent of GDP in 1983 to 3.6 percent of GDP in 1984, but, as Mr. Alfidja had recognized, the reduction was based largely on the expectation that revenue growth would resume as economic activity picked up. Higher receipts from exports of coffee and cocoa were expected to be the main factors contributing to the projected growth in revenue. Such hoped-for developments had of course been characteristic of the past three years of the extended arrangement. The estimates for 1984 might once more prove too optimistic, as they assumed a marked recovery in economic activity and exports.

Ivory Coast's participation in the West African Monetary Union prevented it from following independent interest and exchange rate policies, Mr. de Vries said. Like Mr. Laske, he did not believe that changes in those two key variables were called for at present. But membership in WAMU meant, as it had in the past, that the authorities would have to continue to use other means to make most of the necessary adjustments, including budget cuts, reform of public enterprises, and possibly unfortunate freezes in salaries and promotions, at least as long as efficiency did not increase. The authorities were reported on page 26 of EBS/84/81 as being anxious to find a medium-term strategy that would ensure at least the maintenance of real per capita income. That was indeed a central and vital policy objective, but it seemed to him that the only way in which it could be achieved would be for the authorities to continue, perhaps by dint of even greater persuasiveness and persistence than before, to eliminate a number of the inefficiencies that still existed in the economic structure.

He could accept the two amendments proposed by the staff to the draft deicsion on the stand-by arrangement, Mr. de Vries said. As to the timing of Ivory Coast's last purchase under the arrangement, Mr. Alfidja had suggested that it should be made after December 31, 1984, instead of after February 28, 1985, based on data that should become available by mid-December and a review by the Executive Board at the end of December. It was a tight timetable, and it would violate the practice of giving the Executive Board four weeks' notice of the discussion of a staff report on such a review. On the other hand, he would be prepared to listen to any arguments for not waiting until after February 28, 1985 to permit the last purchase to be made.

In wondering why it had not been possible for the staff and management to provide for substantial financial support to Ivory Coast, Mr. Alfidja had perhaps provided the answer himself in pointing to the structural nature of the problems of the economy, Mr. de Vries remarked. The Fund was not designed to finance structural adjustments, apart from those that were the specific object of the extended Fund facility, of which Ivory Coast had made use. The authorities might well need financial assistance if the country's continuing problems were of a long-run nature, but it was not necessarily appropriate for them to seek it from the Fund. To conclude, he could generally support the staff appraisal and the proposed decisions.

Mr. Clark joined previous speakers in comending the authorities for the way in which they had implemented their economic program since 1980. True, the extended arrangement with the Fund had not been a complete success. However, he accepted the staff argument that failure to meet the targets had in some measure been attributable to factors outside the authorities' control. Following the drought of the past year, it would not be an easy task to reduce the financial imbalances in the economy further, while pursuing the restoration of domestic production. But he encouraged the authorities to persevere with their adjustment efforts, not least so as to protect the country's creditworthiness over the medium term, when substantial capital inflows would be needed.

Referring to Ivory Coast's membership in the West African Monetary Union, Mr. Clark continued, he had noted the staff's suggestion that the substantial reduction in the current account deficit over the past three years had owed something to the decline in the real effective exchange rate of the CFA franc. To some extent, however, the improvement in competitiveness had been fortuitous, stemming as it had from the depreciation of the French franc against the U.S. dollar. That should serve as a reminder, as Mr. Laske and Mr. de Vries had noted, that membership in a currency union did reduce the range of policy instruments available to national authorities, and it raised in his own mind doubts about the likely policy reaction, should exchange rates move substantially in the future. In addition, he recalled the idea expressed by his chair from time to time that it would be helpful to make a joint assessment of the economic policies of countries in a currency union, perhaps under a one-time surveillance exercise. As discussions already took place between the WAMU and the Fund in connection with individual consultations, such an exercise should not be too difficult to organize.

He was concerned with three aspects of the proposed stand-by arrangement, Mr. Clark observed: its size, the content of the program, and the procedure for bringing the arrangement into effect. On the first aspect, Ivory Coast's relatively good track record of cooperation deserved the full backing of the Fund; nevertheless, the member's outstanding purchases were already at a very high level, and the authorities had expressed the wish for further Fund assistance in 1985 and 1986. The staff had therefore been right to design the program around a relatively modest amount of access for one year.

Second, the program rightly focused on fiscal adjustment, where continued strong measures would be essential, Mr. Clark considered. Public investment expenditure was again to be tightly constrained, so that projects would have to be selected with care. In particular, it would be important to avoid investment in nonproductive areas. As for the current budget, he welcomed the new revenue measures outlined in Table VIII of Appendix V of the staff report, together with the authorities' intention to contain current expenditure. In particular, he welcomed the proposed acceleration of the program to rehabilitate public enterprises. It was clear that the financial position of those enterprises remained of great concern, and it would be unfortunate if further losses offset the determined efforts being made by the authorities in other areas. In that connection, he had been interested to note the expansion from 8 to 31 in the number of public enterprises included as part of the Central Government in the public sector accounts. It would be helpful if the staff could explain the likely effects an expenditure control of that change in definition. He had noted of course that the ceiling on net credit to the public sector and on the reduction of arrears covered the expanded public sector. But would that of itself encourage the rehabilitation of those enterprises? He would also be interested to learn whether or not those 31 enterprises were wholly publicly owned; if not, perhaps the staff could indicate the extent of government participation. According to the report on recent economic developments, there were in all 250 nonfinancial public enterprises in Ivory Coast, but until recently, financial data had been available for only eight. If there were any plans for further extending the definition of the public sector beyond the 31 enterprises covered at present, what criteria would be applied? Finally, he wondered what implications, if any, the redefinition would have for Ivory Coast's eligibility for debt rescheduling with the Paris Club.

On external policy, Mr. Clark commented, the authorities' commitment to abolishing external arrears should boost the confidence of external creditors. Although a main aim of the program was to restore Ivory Coast's credit standing, the increase in capital inflows envisaged by 1986 was substantial, and he wondered whether it was altogether realistic. As usual, he had found the staff's medium-term projections for the balance of payments most helpful, but he imagined that they were fairly sensitive to certain of the assumptions set out in Table IX of Appendix V in EBS/84/81. Had the staff, for instance, tested the sensitivity of its projections to lower prices for cocoa and coffee until the end of the 1980s?

As already mentioned, Mr. Clark observed, Ivory Coast's external debt position remained a matter for serious concern. The debt service ratio was projected to remain above 30 percent until 1990, in the absence of rescheduling. The authorities had over the past year or so placed a severe strain on the domestic sector by servicing the external debt at the expense of building up internal arrears. Against that background, rescheduling of public sector debt seemed appropriate and should alleviate the liquidity problems of the private sector.

His third and final point relating to the stand-by arrangement concerned the procedure for bringing it into effect, Mr. Clark concluded. He could go along with the criteria for triggering the stand-by arrangement that were set out on page 31 of EBS/84/81, as amended by the Deputy Director of the African Department. He remained open-minded on the proposal by Mr. Alfidja for advancing the date of the final purchase--although the review originally scheduled for completion by February 28, 1985 would then need to be completed by December 31, 1984--and he wished to hear the views of other Directors and the staff before reaching a decision.

Mr. Kafka said that he supported the program under the proposed stand-by arrangement. Under its previous extended arrangement, and despite great difficulties, Ivory Coast had conducted its policies in such a manner that it had been able to make all the scheduled purchases, with the exception of the last. At the end of September 1983, the credit ceilings had been exceeded, as had the ceiling on payments arrears in particular, essentially owing to the repercussions of external developments that were beyond the country's control.

The Government was convinced of the need to continue its adjustment program in 1985 and 1986, with Fund assistance, Mr. Kafka observed. The question, as Mr. Alfidja had said, was why the Executive Board was not being asked to approve a second extended arrrangement, which would have seemed the appropriate vehicle. The staff's calculations had shown that, even with arrangements in 1985 and 1986 similar to that proposed for 1984, Ivory Coast's outstanding use of Fund credit, both in total and under the credit tranche policies, would amount to about 360 percent of quota at the end of the first quarter of 1987. There would thus seem to be ample room for increased Fund assistance, even without invoking the provision under which, in exceptional circumstances, a member was permitted to draw up to 500 percent of quota.

The adjustment program of Ivory Coast was a strong one, Mr. Kafka remarked. In its appraisal, the staff had suggested that use of Fund resources equivalent to 50 percent of quota on a yearly basis was "consistent with recent guidelines on access policy, especially with respect to the catalytic role to be played by the Fund...." He was not sure that there were any guidelines prescribing a 50 percent limit on access when a member had an extremely strong program and a clear balance of payments need. Did the staff believe that somewhat greater support by the Fund would have discouraged assistance by public and private cofinancers than would otherwise have been available, or that on the contrary the balance of payments need of Ivory Coast would have been more than met?

He could accept Mr. Alfidja's suggestion for the phasing of purchases, Mr. Kafka commented, provided that it was feasible. On a technical matter, he supported Mr. Clark's proposal to hold consultations with the entire membership of a currency union.

Mr. Angeloni recalled that during the course of the 1981-83 program, Ivory Coast had experienced a number of adverse developments, largely outside its own control, connected with large price fluctuations in commodity markets and an upsurge of real interest rates. In its new situation, the country had had to face a steep deterioration in its debt position and outlook, and consequently had had to impose a much stricter set of financial constraints on its development prospects. The challenge was to overcome the difficulties connected with the external constraint while preserving the substance of the development plan that the authorities had been designing since the late 1970s. No alternative scenario could be considered satisfactory, neither one in which financial adjustment failed to be pursued with the necessary effort, nor one in which that effort would jeopardize the country's legitimate aspirations for growth.

The staff had made a convincing case in its report for continuing the Fund's technical and financial support to Ivory Coast, Mr. Angeloni considered. Accordingly, and in particular because the Fund could play a catalytic role, he supported the proposed stand-by arrangement. Most of the analysis and the prescriptions contained in the staff reports were appropriately related to fiscal policy. The reason was that the public sector's financial flows had been especially affected by the external factors that he had mentioned, given the part played by that sector in stabilizing producer prices and the importance of public foreign indebtedness. Moreover, Ivory Coast's association with the West African Monetary Union prevented its full use of monetary and exchange rate policies for domestic purposes.

The two major revenue developments of late appeared to be the stagnation in the value of trade-related duties, and the marked decrease in the profits of the Agricultural Price Stabilization Fund (CSSPPA), Mr. Angeloni noted. Both trends were related to current economic conditions, and, on the basis of the aggregate average tax rates cited in Table 5 of the staff report, little room was left for improving fiscal revenue through new discretionary measures. On the expenditure side, there seemed to be more scope for policy action, directed in particular toward correcting the imbalances created by the stimulus given to public intervention over the past few years.

In that connection, the staff had placed appropriate stress on the situation of public enterprises, whose deficit had remained approximately constant in the past two years, Mr. Angeloni observed, despite a substantial adjustment effort in the rest of the public sector. As for the Central Government, its room for maneuver was restricted by the steep rise in interest payments since 1980 and by the necessity to protect part of the flow of public investment. Action would probably have to be limited to restraining public salaries--certainly Ivory Coast could no longer afford the public employment policy pursued in recent years--and limiting transfer payments; in that respect, the quality of public financing of education should be improved and the needs of the labor market emphasized. However, it should hardly be necessary for him to recall that public support for education was a fundamental step in the process of national capital formation and development; a substantial curtailment of spending on education would run the risk of shifting the burden of the present adjustment onto future generations. The classification of education-related transfers as current expenditures was a custom that ought not to be reflected in policy. On another topic, in light of the justified emphasis placed in the staff report on the distinction between the Central Government and public enterprises, might not an aggregate credit ceiling increase the risk that adjustment would take the form of oversqueezing some departments of the central administration? Could the staff have reduced such a risk by setting separate subceilings?

The progressive increase in domestic interest rates was welcome, particularly because it offered an opportunity to attract short-term intrabank capital from abroad, Mr. Angeloni remarked. He had taken note of the loss of effectiveness of credit ceilings in influencing domestic activity in a country that was associated with a monetary union, even though the ceilings were still effective in relation to the balance of payments. Moreover, Part V in the report on recent economic developments suggested that some instability in the demand for money had made it more difficult in recent years to influence the balance of payments position by controlling net domestic assets.

Finally, Mr. Angeloni mentioned that he had been stimulated to draw a relationship between Ivory Coast's situation and the arguments put forth by some Executive Directors, including his own chair, during the recent discussion of the World Economic Outlook. On that occasion, it had been argued that the solution to one of the key current economic issues--the debt problem--would be tied as strictly to the adjustment policies of debtor countries as to the policies pursued in the major industrial countries, particularly in the reflection of the latter policies on real international interest rates. The case of Ivory Coast, a country pursuing costly adjustment policies to reduce a public sector deficit that was roughly equal to public interest payments abroad, might provide some of the elements for re-evaluating that argument. Considering that any reduction in the real interest burden would release a corresponding amount of financial resources for economic development--for which Ivory Coast in particular had shown considerable potential and which it had pursued with determination--it was important in his view that global policies on debt, as well as national policies that had a bearing on it, should be based on a long-sighted and comprehensive assessment of their implications.

Mr. Mtei said that he had no difficulty with the general thrust of the staff appraisal. One important conclusion that he could draw from the staff report was that, despite a considerable reduction in the investment program--including the cost of education--coupled with an improvement in its quality, the outcome of the extended arrangement, which had ended in 1983, had not been all that satisfactory. Many slippages had been in evidence at the end of the program period. The public sector deficit had exceeded the target, while payments arrears, instead of being reduced or eliminated, had become larger than at the beginning of the program. Nevertheless, the staff had reported the achievement of a substantial structural adjustment and improvement in the external current account deficit.

He recognized that the less than fully satisfactory performance under the extended arrangement had been due partly to exogenous factors over which the authorities had had little control, including the effect of the world recession on Ivory Coast's exports and terms of trade, Mr. Mtei went on. Developments in international interest rates and the persistence of the drought had further compounded the problem. Nevertheless, some domestic policies, particularly fiscal policy and the deterioration in the finances of the public enterprises, had also played a part. The consequent decline in real GDP by as much as 3 percent was therefore not surprising.

The authorities were no doubt aware of the shortcomings of the previous program, Mr. Mtei remarked, and they had taken a number of prior actions in the context of the proposed stand-by arrangement. Those actions included producer price incentives, adjustments in petrol prices and public utility tariffs, the virtual freezing of public sector expenditure at the 1983 level, and a substantial reduction in the rate of expansion of domestic credit. Those were all steps that would go a long way toward establishing a sound basis for the take-off of the economy. Furthermore, the objectives and the various elements of the new program appeared feasible and realistic, provided the authorities did not relent in their efforts but implemented the other agreed measures still to be put in place. Of particular importance were revenue-raising and expenditure-containing measures, along with others relating to the financial viability of the public enterprises and the rehabilitation program in the development bank sector. He noted that the latter would be examined further during the first review under the stand-by arrangement.

If those measures were fully implemented, together with additional ones that might be called for depending on future developments, Mr. Mtei observed, he had no doubt that the outcome of the stand-by arrangement would be satisfactory, thus making possible the realization of the medium-term projections in Table 9 of the staff report. In that context, although a single review should suffice for a one-year stand-by arrangement, he could agree that two reviews might be justified in the Ivorian case in order to ensure adequate monitoring and early detection of possible problems that might lead to an inability to meet the performance criteria unless they were rectified. Yet much would depend on developments outside Ivory Coast, over which the authorities would have no control, including the pace at which recovery in the developed countries spread to the developing countries, the dismantling of trade barriers, the evolution of international interest rates, and, of course, weather conditions. Capital inflows would also be of major importance.

In connection with capital inflows, Mr. Mtei continued, the Fund and the World Bank would have a crucial part to play. He had problems with the access limit of 50 percent of Ivory Coast's quota, which in the staff's view was consistent with the guidelines on access policy. He would have thought that the strength of the program, which had been noted by other Executive Directors, justified an arrangement for a greater amount, especially as the staff agreed that "most measures have been implemented before consideration of the program by the Board."

Another worrisome aspect of the arrangement was that drawings under it were to be subject to a satisfactory outcome of the Paris Club meeting as well as to the fulfillment of conditions for the release of the second tranche under the second structural adjustment loan from the World Bank, Mr. Mtei stated. It was inappropriate in his view for the Fund to make the use of its resources subject to the specific details of individual programs designed by outside agencies. The Fund might not be familiar with and might not even agree with the conditions of such programs. The staff might wish to comment on the linkages that it seemed to be advocating for members using Fund resources. In conclusion, for the reasons given by Mr. Alfidja, complemented by those of Mr. de Maulde, he could support the proposal to bring forward the last purchase under the arrangement to a date after December 31, 1984.

Mr. Ainley said that he agreed with the main points in the staff appraisal and supported the request for a one-year stand-by arrangement. Like others, he commended the authorities for their determined adjustment efforts within the framework of the recent extended arrangement. Unfortunately, despite some initial success, the main objectives of the arrangement had not been met, in large part because of external factors. As the authorities recognized, further efforts were required to strengthen the public finances, eliminate arrears, and revitalize the private sector.

The proposed program under the stand-by arrangement seemed well designed to correct the main weaknesses in the economy, Mr. Ainley considered. Several important measures were already in place, showing the serious commitment of the authorities to adjustment. He welcomed in particular the emphasis in the program on encouraging growth, which had declined sharply since 1980. The recent adjustments in producer prices should stimulate agricultural production and contribute to a reduction in food imports. He also supported the measures designed to improve the competitiveness of the manufacturing sector. As his chair had said many times, growth was essential if countries like Ivory Coast were to repay their debts.

In the short term, as Mr. Alfidja had noted, fiscal restraint would be vital, Mr. Ainley commented. He agreed with the staff that "a solution to Ivory Coast's financial problems cannot be found without tightening the financial control of public enterprises." He therefore welcomed the steps being taken to rehabilitate those enterprises, to reduce their operating costs, and to improve their management. That was clearly a difficult and a long-term task, and it was encouraging that the World Bank was closely involved in the plans for undertaking it. He also supported the authorities' moves to curtail public expenditure and raise new revenue. Taken together, those measures should set the stage for a steady reduction in domestic payments arrears during the program period.

On the monetary side, Mr. Ainley added, the proposed credit ceilings appeared consistent with the targeted improvement in the balance of payments. According to the staff report, several commercial banks had encountered serious financial difficulties in 1983, and it would be useful to learn more about the extent of those difficulties and the authorities' plans for dealing with them. Fortunately, the problems of the development banks were being tackled with assistance from the World Bank.

Progress by the Ivorian authorities in eliminating external arrears would be an important way of improving external confidence and strengthening the country's creditworthiness, Mr. Ainley commented. Looking further ahead, the medium-term prospects were somewhat uncertain. The debt service burden in particular was likely to remain heavy for the rest of the decade. There was thus little alternative to sustained adjustment efforts aimed at putting the economy on a path of steady growth; to be successful, those efforts would require the continued support of the Fund, the World Bank, and the international financial community. He hoped that the proposed stand-by arrangement would lay the basis for such support.

He could accept the two amendments proposed by the Deputy Director of the African Department to the proposed decision on the stand-by arrangement, Mr. Ainley said. As to the timing of the final purchase, it would probably be reasonable to bring forward the date, on the assumption that the second review would be completed by the Executive Board beforehand. As for the amount of the stand-by arrangement, he sympathized with the arguments put forward by Mr. Alfidja; they were, however, balanced by those of the staff, which was projecting future use of Fund resources by Ivory Coast. It would therefore be helpful to have further information from the staff on the important point.

Mr. Erb stated that the Government of Ivory Coast had clearly found itself in difficult circumstances, many of them due to developments in the rest of the world, but also to conditions within the country, including the weather. As the staff had pointed out, the authorities had responded mainly by taking austerity measures, which had been necessary in part for balance of payments reasons but had also been desirable from a long-run perspective, because many of the expenditure cuts had begun to chip away at some of the structural problems in the economy.

He could support the current program under the proposed stand-by arrangement, Mr. Erb continued. However, it was not clear from the staff report whether or not a higher set of interest rates--perhaps in the region as a whole--would reduce or even stem the outflow of interest-sensitive capital. He was also concerned about two other aspects of the program. First, the authorities held an apparently negative view of the competitive position of Ivory Coast in the world economy. After making its own description of the prospects for the medium term and referring to its medium-term forecasts, the staff had reported the authorities as "recognizing the many uncertainties attached to such projections," but as having "stressed that the expansion of export earnings was essentially dependent on factors beyond their control." Similarly, he found troublesome a paragraph on page 13 of EBS/84/81, in which the staff had stated, in referring to the liquidity problems faced by a number of manufacturing industries, that "in the medium term, the improvement will have to come from an increase in the international competitiveness of Ivorian enterprises. To this end, the structure of import duties will be revised, quantitative restrictions will be replaced by tariffs, which will decline over time, and an export subsidy scheme based on value added will be established." The introduction of tariffs as a substitute for quantitative restrictions caused him no problem, and indeed was a desirable alternative, although he was not satisfied with the statement that the tariffs would decline over time. Moreover, the last sentence in the paragraph reported that: "According to a study conducted by the World Bank, the additional revenue from import duties should at least offset the cost of export subsidies." He was concerned about such an approach to maintaining the external competitiveness of the Ivorian economy. He recognized that Ivory Coast was constrained in adjusting its exchange rate as a member of a currency union, but like Mr. Clark, he would like the exchange rate policy of the union itself to be examined. In many ways, the Government would be taking an undesirable path by combining import duties and export subsidy schemes as an alternative to exchange rate action.

But Ivory Coast's problems of competitiveness went beyond questions of the exchange rate, Mr. Erb considered, to touch the heart of the structural problems of the economy. In that connection, in spite of the efforts to reduce the deficits of state enterprises, to make them more cost efficient, and to shed some of the less efficient enterprises, a large share of the economy's resources was controlled by the Government. Based on the experience of Ivory Coast in managing its public investments, legitimate questions could be asked about the need for a greater effort at decentralizing decisions on investment, to include perhaps a much larger role within the economy for the private sector. The outcome might possibly be an improved flow of resources to sectors that were more competitive internationally.

Furthermore, Mr. Erb continued, he had noted from pages 19 and 20 of the report on recent economic developments that real wages had risen sharply from 1978 to 1980, when, for example, "...a Taiwanese or Korean worker received one half as much as an Ivorian, and a worker in the

Ivorian textile industry received a salary equivalent to about two thirds that of his counterpart in France. In addition, fringe benefits are good, with seniority allowance after two years of service, retirement at 55 years of age, and a mandatory year-end allowance." He recognized that unit labor costs had declined in 1981 and 1982, but, given the magnitude of the discrepancy in earnings and labor costs in Ivory Coast compared with those in some other countries, he wondered whether a sufficient adjustment had taken place in real wages, and whether the labor markets were sufficiently flexible to permit a flow of labor to the more productive sectors of the economy, in order to improve Ivory Coast's international competitive position.

Responding first to Mr. Alfidja's question about the schedule of purchases, Mr. Erb said that he had been struck by the heavy concentration of purchases in the first few months of the arrangement. By mid-June, Ivory Coast would be able to draw half of the amount to be made available under the arrangement, with a further one quarter to be drawn after September 15, and the remaining purchase not to be made until after February 28, 1985. A more even distribution of purchases throughout the period would have been more consistent with the schedule of purchases under arrangements for other countries. He tended to be less favorably disposed than the other Directors to Mr. Alfidja's request for advancing the final purchase, without knowing the staff's views.

Second, with respect to Mr. Alfidja's query concerning the magnitude of the commitment of Fund resources in connection with Ivory Coast's program, Mr. Erb considered that it was not a question of the amount being too low in terms of quota but, on the contrary, of whether it was too high, given the previous multiyear arrangement of Ivory Coast, and the amount of its outstanding purchases. He recalled that he had raised the same question during the Executive Board's discussion of Sudan's request for a stand-by arrangement (EBM/84/68 and EBM/84/69, 4/30/84). The staff had referred in its appraisal to the desire of the authorities to continue receiving Fund assistance in the two years following 1984; if such future use of the Fund's resources were to be of a similar magnitude in those two years, the question was whether it would be consistent with the temporary character of Fund financing. When a member had made prolonged use of Fund resources, the normal expectation would be for the annual commitment of resources to decline toward the end of the program period, as adjustment took place, especially when it was taking as long as in Ivory Coast.

Finally, the rationale for approving a one-year program, to be supported by the proposed stand-by arrangement, rather than a three-year program, was the existence of structural problems in the economy, some of which were severe, Mr. Erb noted. Like Mr. de Vries, he believed that it was in the domain of the World Bank to provide the expertise and financing in support of structural adjustment, rather than in that of the International Monetary Fund.

Mr. Zhang said that he could support the request by the Ivorian authorities for a new stand-by arrangement, as well as the proposals made by Mr. Alfidja in his opening statement.

The previous extended arrangement had resulted in a large fall of gross domestic investment in terms of GDP from 26.2 percent in 1980 to 16 percent in 1983, Mr. Zhang observed. Exports had also declined significantly in those years, but the fall in investment had obviously been the main reason for the stagnation in GDP in 1981 and for its continued fall in 1982 and 1983. Under the new stand-by arrangement, investment in 1984 was programmed to continue to fall to 15 percent of GDP. It was also envisaged that the volume of exports would still be on a declining trend; thus, the increase in the value of exports would come entirely from a sharp increase in prices. His question was whether the curtailment of investment--both implemented and programmed--was not excessive. What would be the engine of future growth? More generally, it was not clear to him what medium-term path of growth the Fund wished the Ivorian economy to follow, or what type of economy would eventually emerge after successive Fund programs. In other words, would the Ivorian economy show the vigorous growth witnessed during the 1970s?

According to the staff, Mr. Zhang went on, the solution of Ivory Coast's debt problem would depend mainly upon the pursuit of strong adjustment measures for several consecutive years. Did that mean that domestic investment should be further curtailed and additional deflationary measures taken? Would the economy be able to develop and grow under such circumstances?

The present program would play a "catalytic role," in the staff's view, Mr. Zhang noted. But an effective catalytic agent had to be applied immediately, and with large but suitable force. It was understandable that, because of the extent of Ivory Coast's use of Fund resources, the amount to be made available under the proposed arrangement could not exceed 50 percent of quota. But he failed to understand why the purchases should be phased in the manner proposed. Furthermore, it was implied in the staff report that the Ivorian authorities intended to ask for new arrangements for 1985 and 1986. Did the staff consider that such new arrangements would again play a catalytic role? Furthermore, if Ivory Coast had a greater need for Fund resources, why had the authorities had not asked for another extended arrangement to take effect immediately? He noted incidentally that the staff considered the proposed stand-by arrangement in an amount of 50 percent of Ivory Coast's quota to be consistent with recent guidelines for dealing with similar cases. He was not sure that the Executive Board had taken such a clear-cut decision in that respect.

Finally, Mr. Zhang commented, one of the conditions for bringing the proposed stand-by arrangement into effect was the release of the second tranche of the IBRD's second structural adjustment loan (SAL) to Ivory Coast. He understood that that loan was related only to the reform of the industrial sector. Thus, he questioned the reason for linking together the stand-by arrangement and the SAL at the present juncture, and asked whether such linkage reflected general Fund practice.

Mr. Salehkhou expressed his concurrence with the thrust of the staff's assessment of Ivory Coast's economic difficulties after three years of strong adjustment efforts. The economic performance under the expired extended arrangement, especially in the last two years, had in general been considerably below expectations and out of line with the program's original and revised targets. The performance was all the more disappointing as the authorities had consistently demonstrated a serious attitude toward adjustment by implementing all the measures and policies provided for under the extended arrangement, and by taking additional and emergency measures to offset the impact of adverse unforeseen developments.

As indicated in the staff report and in papers on previous reviews of the 1981-83 arrangement with the Fund, Mr. Salehkhou continued, the program's main assumptions had proved overoptimistic. The severe world economic recession had lasted much longer than originally expected; real interest rates had soared beyond the projections in the program; the deterioration in Ivory Coast's terms of trade had substantially exceeded the 4 percent decline that had been projected. The expected progress in the exploitation of the country's oil resources had not fully materialized, thereby adversely affecting the member's performance under the program. Moreover, the severe drought in 1983 that had affected most of sub-Saharan Africa had hit Ivory Coast's agricultural sector, which remained the main source of economic growth, extremely hard, and had dangerously disrupted the generation of hydroelectricity. Thus, the country's strong three-year adjustment effort had resulted in unsustainably high costs in terms of real economic growth, and it still faced tremendous difficulties, clearly underlining the need for continued implemention of cautious and adjustment-oriented policies over the medium term.

Despite the unsatisfactory outcome of the expired extended arrangement--compared with the original targets--it should be stressed that substantial improvement had nevertheless taken place, mostly with respect to structural adjustment, Mr. Salehkhou considered. Besides relatively large reductions in the ratios of public sector and external current account deficits to GDP, commendable progress had been achieved in various important areas, such as the public sector investment program, the cost of education, employment policies in the civil service, and fiscal discipline.

The implementation of the main policies of the 1984 financial program prior to the Board's consideration of the requested stand-by arrangement was indicative of the Ivorian authorities' continued commitment to the adjustment process, Mr. Salehkhou considered. Those policies should complement and strengthen the ones carried out in the past three years and should put the economy in a position to benefit from the much improved international environment, including the encouraging increases in the international prices of Ivory Coast's two main exports.

The emphasis in the 1984 program on the elimination of accumulated external arrears, and on a more decisive curtailment of the public sector and external current account deficits, was crucial to the authorities' objective of restoring confidence in Ivory Coast's economy, Mr. Salehkhou continued. Equally noteworthy and vital to the success of the new program was the provision for more supply-side measures aimed at paving the way for a resumption of real growth. Those measures included in particular substantial increases in the producer prices of major agricultural products, and the closing of inefficient state-owned complexes, as well as major programs aimed at rehabilitating and streamlining selected public enterprises, supported by assistance from the World Bank.

While the authorities' policies under the financial program for the current year seemed to be comprehensive and consistent with the difficulties still facing the economy, Mr. Salehkhou went on, it should be underlined that actual progress would remain greatly dependent on exogenous factors beyond the authorities' control, including the evolution of international real interest rates, and of Ivory Coast's terms of trade, as well as a return to normal weather conditions. Those were constraints that stressed the need for continued close adherence to the provisions of the financial program and for an acceleration of structural reforms; they also pointed to the necessity of a greater diversification of production so as to shield the economy from the impact of adverse exogenous developments.

On the two points raised by Mr. Alfidja in his statement, Mr. Salehkhou said that he joined Mr. Kafka, Mr. de Maulde, and others in the view that a case could be made for granting Ivory Coast a stand-by arrangement for a larger amount, given the magnitude of its adjustment effort, its past track record, and balance of payments need. Like Mr. Kafka, he doubted that the Executive Board had adopted clear guidelines relating to the so-called catalytic role of the Fund. As to the phasing of the last purchase under the arrangement, he would support Mr. Alfidja's proposal, if it were technically feasible.

Finally, Mr. Salehkhou remarked, although he favored the strengthening of the Fund's cooperation with the World Bank, he did not think it desirable to establish any kind of linkage between drawings on the Fund and the status of the member with respect to World Bank assistance. Moreover, he believed that the insertion in the proposed decision of any reference to the two measures mentioned by the Deputy Director of the African Department--the rise in bus fares and water charges--should be avoided. It would be rather unusual and might leave the impression that the Fund doubted the willingness of the Ivorian authorities to act. Except for those reservations, he could support the proposed decision.

Mr. Jayawardena said that he endorsed the comments of Mr. Kafka. He also supported Mr. Alfidja's proposal to advance the date of the last purchase, if possible.

The proposed program was a strong one that could be characterized as a serious attempt by the authorities to rectify remaining imbalances, Mr. Jayawardena considered. Nevertheless, Ivory Coast's problems were deep-rooted, structural, and undoubtedly medium-term in nature; thus, he hoped that they would be taken up in future in the appropriate context of the extended Fund facility. As Mr. de Vries had said, the Fund was not the institution to finance structural reform. But, under the extended Fund facility, the Fund had the means to assist countries over a longer term, if they took short-term adjustment measures to meet imbalances that were deeply rooted in structural problems, and if the economy was in need of overhaul for adjustment to succeed and for the economy to become viable in the long run. In judging whether or not the Fund would be justified in granting Ivory Coast another extended arrangement, sight should not be lost of the experience of many countries that had worked out extended programs with the Fund in recent years, but had had to modify those programs to deal with the impact of an extremely adverse and long-standing world recession, a development that had not been anticipated when the Board had adopted the decision on the extended Fund facility.

Mr. Donoso said that he strongly supported the proposed stand-by arrangement. It contained all the elements needed to bring about the required improvement in the economic performance of Ivory Coast.

With respect to Mr. Alfidja's proposals, Mr. Donoso added, he was in favor of an earlier date for the last purchase. He foresaw no problems with respect to the requirement relating to the review, which would still apply. He also joined other Directors in asking the staff for a complete explanation of the amount of the stand-by arrangement in support of Ivory Coast's program.

Mr. Ercel stated his support for the proposed decisions. The Ivorian authorities needed to bring unexpected internal and external developments under control because of their effect on the implementation of the three-year adjustment program under the extended arrangement. Despite courageous efforts, and a measure of progress toward structural adjustment in particular, as shown in Table II of Appendix V of EBS/84/81, several program targets had not been met. At the end of 1983, the overall public sector and current account deficits had still been high as percentages of GDP, public sector savings were below the 1980 level, and the debt service ratio had been rising. The slippages from the economic program had occurred mainly in 1982/83. The authorities intended to continue their strict demand management policies in the coming years. He hoped that the new, well-designed, strong program would be implemented effectively so that the targets set could be achieved. In conclusion, he could support Mr. Alfidja's request for advancing the date of the last purchase.

The Deputy Director of the African Department, taking up the issues that had been raised concerning membership in the West African Monetary Union, explained that four of the six countries that were members of the WAMU--and at the same time of the Central Bank of West African States (BCEAO)--currently had programs under arrangements with the Fund. The staff had visited or was about to visit the two other countries to discuss possible use of Fund resources. A fifth country, soon to join the WAMU, also had a Fund-supported program. The chief of any mission that went to those countries always stopped in Dakar to discuss monetary and interest rate policy with the BCEAO. In addition, it might be of interest to note that a seminar, organized by the External Relations Department, had been held in Dakar during the previous week. Nine countries in the West African region had been represented, the six members of the BCEAO and three others; the Deputy Governor of the Bank had also participated in the discussions, which had covered the problems mentioned by several Executive Directors. Interest rate policy had in fact become an open topic of debate; it had been recognized that interest rates played an important role in the general policies of individual countries and affected the balance of payments of the region as a whole. For the time being, the staff would agree with those Executive Directors who considered that no major change in interest rates in Ivory Coast was necessary, those rates being generally positive in real terms.

As for the competitive position of Ivory Coast--and indeed of the West African region--it would in principle seem that if an export subsidy scheme was useful, some depreciation of the currency could fulfill the same purpose, the Deputy Director remarked. However, the World Bank staff considered that an export subsidy scheme would be particularly useful in promoting Ivory Coast's nontraditional exports, thereby improving the balance of payments without resort to a change of parity between the CFA franc and the French franc. A similar scheme had been introduced in Senegal. In both countries, the total cost of the export subsidies would be relatively low; the absolute cost, however, would be higher for Ivory Coast than for Senegal because of the larger size of the Ivorian economy. As he had mentioned in his opening statement, the World Bank had made the introduction of such a scheme a condition for the release of the second tranche of the second structural adjustment loan (SAL II). The Fund itself had not been bringing similar pressure to bear on the authorities.

Real wages in West Africa were relatively high, the Deputy Director commented, for several reasons. The employment of expatriates in key positions was costly, and wages of unskilled workers were generally higher than in many regions of the Far East. Real wages in Ivory Coast had declined in the past two years, and there would probably be some further decline in the two years ahead.

The main reason for the large turnaround in the fiscal and balance of payments deficits in 1984 was the size of the profits transferred from the Stabilization Fund to the CAA and to the Treasury. Out of total transfers of CFAF 200 billion--equivalent to about $500 million--scheduled to be made in 1984, CFAF 110 billion had already been transferred, so that there was a reasonable expectation that the full amount would be transferred in the current year. The profits were to some extent a reflection of improved world commodity prices, following the economic expansion in the industrialized countries. It should be noted in that connection that, if the targets in the 1984 program were met, the public sector and external current account deficits would be lower in 1984 than originally projected for 1983 under the extended arrangement. In sum, it could be said that the recession in the industrial world had lasted one year longer, and that the objectives of Ivory Coast's recovery plan had also been delayed in their fulfillment by one year.

Public enterprises had been covered in much greater detail in the staff report for the 1983 Article IV consultation than in earlier staff reports, the Deputy Director stated. The definition of the public sector had been enlarged in order to encompass several key public enterprises that had had special difficulties in 1984, namely, the electricity company, which had incurred higher costs because it had had to shift from water to fuel to generate electricity, and the oil refinery, which had had large losses. Of the 31 public enterprises whose accounts had been consolidated with the accounts of the public sector, 21 were fully owned by the Government while 7 were more than half owned by the Government, which had less than a 50 percent share of ownership in the 3 remaining enterprises, namely, the oil refinery (SIR), the Société Multinationale des Bitumes (SMB), and the fertilizer company (GIVCR). Most of the other public enterprises were also less than half owned by the Government, although they received help through the National Investment Fund (FNI). Separate subceilings had not been set for credit to the Central Government and to the 31 public enterprises because of the considerable degree of fungibility between the two sets of accounts. For instance, when SIR (the oil refinery) was in financial difficulties, it could delay its payment for the oil received from PETROCI (the Ivorian public enterprise associated with Phillips in the exploitation of the oil field), which in turn could delay payment of oil royalties to the Treasury.

The new definition of the public sector would have an impact on Ivory Coast's debt rescheduling, the Deputy Director noted. As a general rule, the debt to be rescheduled at the Paris Club was the direct debt of the Central Government, together with the debts of public or private enterprises that were fully guaranteed by the Government.

In assessing the medium-term prospects for Ivory Coast, the staff had made alternative assumptions about the future value of several external variables, such as coffee and cocoa prices and interest rates, the Deputy Director said. The staff had retained a single set of values for those variables in the report, but had presented the balance of payments deficits and the debt service ratios with and without gap financing. In the figures "with gap financing," allowance had been made for refinancing the debt service due in 1984 and 1985 on the basis of assumptions on the terms that Ivory Coast could obtain from the Paris Club and the London Club; those terms were, however, not specified in the report so as not to prejudge the future decisions of those two bodies. For 1986 and later years, it had been assumed that Ivory Coast could satisfy its financial needs--of about CFAF 400 billion a year--by normal recourse to the capital market. If, instead, Ivory Coast had to return to the Paris and London Clubs in those years to refinance similar amounts, the projection would be affected only to the extent that the cost of refinancing through debt rescheduling would differ from that of direct financing through the capital market. Among various possibilities considered for 1986 was cofinancing by commercial banks and the World Bank in the form of "B loans."

The assumptions relating to future use of the Fund's resources had been specified in Table 10 of the staff report, the Deputy Director commented. Under Item H, charges on Fund drawings and scheduled repurchases had been calculated on the assumption that the proposed stand-by arrangement would be approved, and that all purchases under it would be made. No account had been taken of further possible purchases from the Fund after completion of the proposed arrangement. If, however, the proposed arrangement for 1984 were followed by two similar stand-by arrangements, in 1985 and 1986, Ivory Coast's total use of Fund credit would be equivalent to about 360 percent of quota in the first quarter of 1987. In response to Mr. Kafka's question, it was clear that the Ivorian authorities would have been interested in an extended arrangement, had one been proposed to them.

Regarding the phasing of drawings under the proposed stand-by arrangement, the Deputy Director explained that the final purchase would be made after it was known that the performance criteria for end-September had been met and upon satisfactory completion of the second review. A Fund mission was scheduled to visit Ivory Coast in the second half of October; if the report could be circulated in early December, the Executive Board could hold its review around the new year. He understood Mr. Alfidja's proposal to mean that, if the review were satisfactorily completed by that time, Ivory Coast would be allowed to make the last purchase immediately thereafter, rather than after February 28, 1985, as presently indicated in the proposed arrangement. If that proposal were accepted, the letter of intent would not require amendment, but two changes would have to be made in the text of the stand-by arrangement.

As for the linkage between the first Fund drawing and the release of the second tranche of the structural adjustment loan, referred to as cross-conditionality between assistance from the Fund and the World Bank, the Deputy Director of the African Department observed that the June credit ceiling had been set under the assumption that the equivalent of CFAF 30 billion would have been disbursed from the second tranche of the SAL by the end of June. If the conditions for the release of the second tranche were not met in June, Ivory Coast would probably not be able to observe the June credit ceiling. Major considerations in the staff's evaluation of the availability of financing to meet the balance of payments gap had been the disbursement of the second tranche of SAL II, the debt rescheduling to be agreed by the Paris and London Clubs, and the disbursement of the short-term loan from the Caisse Centrale of France, which he understood from Mr. de Maulde was being released.

Mr. Erb inquired why the data for the end of September were to be used for determining whether or not the performance criteria relating to the final purchase had been met. If data through December 1984 became available by March 1985, it would seem more appropriate to take those into account under a stand-by arrangement that was to be effective for one year from May 1, 1984.

The staff representative from the Exchange and Trade Relations Department stated that, in principle, the main considerations underlying the proposal for a 12-month stand-by arrangement in an amount equivalent to 50 percent of quota were, first, the medium-term outlook for the balance of payments, which would clearly not reach a viable position during that time span and, second, the high level of use of Fund resources and the expected continued use of Fund resources by Ivory Coast for a number of years in the future. Those were the circumstances that had been emphasized in the criteria for the amount of access in individual cases (EBS/83/233, 10/31/83; EBM/83/166 and EBM/83/167, 12/2/83) as being symptomatic of the need for the Fund to play a largely catalytic role and to provide limited support.

It might be useful in that context, the staff representative remarked, to mention the amount of stand-by arrangements that had recently been approved for several member countries, which had made heavy use of Fund resources and which had been granted access, on an annual basis, in the range of 50-60 percent of quota. The stand-by arrangements for Sudan and Turkey had been equal to 53 percent of quota; for Yugoslavia, the figure had been 60 percent of quota. The Executive Board had yet to take up the request of Jamaica for a stand-by arrangement, which it was proposed should be equal to 44 percent of Jamaica's quota. The size of the stand-by arrangement for Ivory Coast was thus consistent with that of arrangements for other countries in similar circumstances.

The Fund's policy on the phasing of drawings under its arrangements had been outlined in a staff paper on enlarged access to the Fund's resources (EBS/80/262, 12/4/80; EBM/81/4, 1/9/81), the staff representative recalled. It had been pointed out that the practice was to make resources available over the full period of the arrangement, and normally to phase the provision of resources fairly evenly throughout that period to ensure adequate support to the adjustment effort at all points of the program's implementation. Moreover, it was recognized that a case could be made for front-loading drawings, particularly when significant exchange rate action or the liberalization of restrictions took place in the early stages of the program.

The proposed one-year stand-by arrangement for Ivory Coast was to be approved in principle, and to become effective only after certain conditions had been met, the Deputy Director added. Thus, the arrangement might not become effective until the end of May, so that it would extend until the end of May 1985. If the Fund's normal practice on phasing throughout the period of the arrangement were applied, it would not be possible to advance the last purchase, as proposed by Mr. Alfidja.

Moreover, it was unusual for two purchases to be made so closely together at the beginning of an arrangement, the staff representative noted. The discussions with the authorities on Ivory Coast's program had taken a long time; in the initial stages, it had seemed reasonable to provide for a purchase linked to the March performance criteria. In the event, that had not proved feasible. Ideally, the practice of distributing purchases evenly throughout an arrangement would call for transposing the second purchase, which was also linked to the March 1984 criteria, to the last quarter of 1984. The drawings would then be made in four installments, in accordance with the usual practice. The first drawing would be made on approval of the stand-by arrangement, the second and the third would be linked to the performance criteria for June and September, and the last purchase, as proposed at present, would be linked to the December performance criteria and be made in early 1985. It might be noted that the phasing of the drawings under Sudan's one-year stand-by arrangement, approved by Directors only a few days earlier, had called for five purchases, two of which would be made in 1985. Given the principle of equal treatment of members, therefore, Ivory Coast's last purchase under its arrangement should not be advanced into 1984.

The intention of the proposed decision on the stand-by arrangement was not to imply any policy linkage between the assistance provided by the Fund and the World Bank, but to ensure full financing of the program, the staff representative from the Exchange and Trade Relations Department said. It might be possible to avoid any impression of cross-conditionality by stating only that the stand-by arrangement would become effective when the financing was assured. Such language would be in line with the position taken on collaboration between the Bank and the Fund, in the Executive Board, and by the Managing Director himself, in earlier discussions, when it had agreed that there should be no cross-conditionality.

Mr. de Maulde remarked that it was interesting to note that, in the explanations given by the staff representative of the Fund's policy on access limits and on phasing, no reference had been made to Executive Board decisions but only to staff papers. As he recalled, the Board's discussion of criteria for the amount of access in individual cases had been concluded by the Chairman's summing up (EBM/83/167, 12/2/83), as had the earlier discussion in 1980 of the staff paper on enlarged access to the Fund's resources (EBM/80/18, 12/19/80).

Mr. Kafka said that he too remembered that the Chairman had summed up the discussion in the Board on criteria for the amount of access in individual cases, rather than attempting "to reformulate the proposed criteria in Section V of EBS/83/233," in the words of the summing up.

As for Ivory Coast, Mr. Kafka recalled, the Deputy Director of the African Department had mentioned that the member's use of the Fund's resources would reach 360 percent of quota in the first quarter of 1987. The strength of the program should make it possible, if necessary, for the member to make further use of the Fund's resources at that time.

Mr. Kabbaj said that he recalled at least one arrangement under which the member had made the last purchase toward the end of December, based on the satisfactory fulfillment of performance criteria at the end of September; the last set of performance criteria at end-December had not been linked to any purchase, and at the time of Board consideration it had not been known whether those performance criteria were going to be met. The staff had mentioned that such a case was not unusual. Thus, he wondered how strong a case there was for stretching out Ivory Coast's purchases until March 1985.

The Chairman commented that, strictly speaking, even if Ivory Coast's arrangement became effective at the beginning of May, and if the purchases had all been made by the end of December, both the program and the arrangement would be for eight months at the most, and the amount of access on an annual basis would be 75 percent rather than 50 percent of quota. The proposal was for a one-year stand-by arrangement, from May 1984 to May 1985. The normal schedule for drawings under the arrangement would be along the lines indicated by the staff representative. The proposal to front-load the purchases, in favor of the Ivorian authorities, had been designed to take into account the delays in the discussions on the stand-by arrangement, together with the measures adopted by the authorities as, in a sense, preconditions. In all fairness, it had to be said that the adjustment effort had started before the effective date of the stand-by arrangement. After it had been determined that the September performance criteria had been observed, there would be an interval until the third drawing was made, with the second review to be held at the end of 1984, and the final purchase made some time in March 1985. The phasing was not ideal, but it had the merit of being a compromise with reality.

Mr. Erb remarked that he could go along with the approach outlined by the Chairman. During the discussion, the Executive Board had become aware of matters on which it had not focused closely beforehand. He himself was concerned about the precedent that might be set because the performance criteria were not operative until the end of the arrangement. There might be other occasions when negotiations between a member and the Fund were delayed, and where the program had begun only implicitly. The desire of a government to enter into an arrangement with the Fund should provide an incentive to conclude the negotiations sooner, rather than later, and for the program and the arrangement to run concurrently. The fact that Ivory Coast's arrangement would extend until May 1985 left the impression that there would be a later program, even though the phasing of the drawings was phased as if the program--and the stand-by arrangement--had been approved at an earlier date.

Mr. de Maulde observed that the request before the Executive Board, as stated on the first page of the staff report, was for a one-year stand-by arrangement covering the year 1984 in an amount of SDR 82.75 million, equivalent to 50 percent of Ivory Coast's new quota. Therefore, either the amount of the arrangement should be a larger percentage of quota, or the purchases should take place sooner, especially as the authorities themselves had apparently not been responsible for the delay.

The Deputy Director of the African Department explained that because the adjustment under Ivory Coast's program was largely a fiscal effort, it was advisable to have the program coincide with the fiscal year, which in Ivory Coast was the calendar year. Most of the program had been agreed by the end of December 1983, following a staff mission, and the letter of intent had been finalized early in January. Above all, it was important to note that the adjustment effort had begun on January 1, 1984. The staff report had not been issued until April 6, because the staff had not wished to submit to the Executive Board a program under which the expected turnaround was so great that it might have been viewed as wishful thinking. Therefore, the staff had delayed the issuance of the staff report until certain essential conditions of the arrangement relating to fiscal performance in the first quarter of 1984 had been satisfied.

On the phasing, the Deputy Director mentioned that, as indicated in Table III in Appendix V of EBS/84/81, Ivory Coast had made four purchases a year throughout the three years of its extended arrangement, upon satisfaction of the performance criteria for March, June, and September, with the exception of the last year, when the final purchase in December had not been made. The performance criteria and phasing under the arrangement for 1984 followed the same pattern because the authorities were familiar with it, and as a result the negotiations had been easier. The same approach would be followed when a new program for 1985 was discussed, with the December purchase being subject to observance of the September performance criteria.

Mr. de Vries remarked that there was clearly no simple and logical solution to the timing problem that had emerged. Like Mr. Erb, he considered that the Fund should not put a premium on slow negotiations. Programs supported by the Fund were under scrutiny, and if their implementation were delayed because of lengthy negotiations, so that both the program and the arrangement had to be finalized under pressure, the chances of success with the program would be less good. In passing, he noted that the long time needed to negotiate some arrangements with the Fund might be one reason why the Treasurer's estimates of use of Fund resources were often too high.

If Ivory Coast's program was indeed essentially a May-to-May program, and the Chairman had made a good case that it was, the staff's proposals for the phasing of purchases under the arrangement made sense, Mr. de Vries considered, especially as the negotiations had been delayed, for whatever reason. In addition, as the staff representative from the Exchange and Trade Relations Department had pointed out, the Fund would otherwise be departing from its normal practice.

The Chairman added that it was not so much a matter of prolonged negotiations as of the wish on the side of the Fund, owing to the size of the proposed shift in the fiscal position, to delay the issuance of the staff paper until certain preconditions had been satisfied. One of the striking developments under the program was the increase in transfers from the Stabilization Fund to the CAA and to the Treasury, from CFAF 45 billion in 1983 to CFAF 200 billion in 1984. The increase was not entirely a reflection of the coffee and cocoa boom, but of a change of great significance in administrative and financial procedures. In order to be sure that the transfers in the first quarter of 1984 had been made in accordance with the schedule indicated in Table 4 of Appendix II of EBS/84/81, the staff report had been held back until April 6, even though the letter of intent had been signed on February 20, 1984. Therefore, it seemed appropriate to adhere to the pattern of purchases and performance criteria proposed in the staff report.

Mr. Erb commented that the Fund had been very flexible and had helped Ivory Coast to deal with the difficult circumstances that it had faced over the past three years. It had proved possible to keep the extended arrangement in place, although the final purchase had not been made. The authorities for their part had been undertaking a major effort to resolve their problems. Therefore, he was prepared to support the program under the proposed stand-by arrangement.

However, Mr. Alfidja had posed questions that raised other issues, Mr. Erb continued. He had no problem with the proposal to permit Ivory Coast to draw half of the amount to be made available under the arrangement in the April-to-June quarter, in light of the measures taken so far in 1984, and of the efforts made by the authorities over the past several years. But he was troubled by the absence of a provision for applying performance criteria until the end of 1984, if the program was for the calendar year. The availability of data to satisfy the performance criteria for the end of December should be a condition for the release of the final purchase, which would then be made in March 1985.

Mr. Clark said that he supported the position of Mr. Erb. In addition, he considered that in approving the present program, no assumption should be made, as had been implied by the Deputy Director of the African Department, that the monitoring of progress toward the end of the period would be a condition for approving a program for 1985.

Mr. Laske said that he had been persuaded that the phasing proposed by the staff deserved support. Like Mr. Erb, however, he felt that if the program covered the whole calendar year, the performance criteria should also extend to the end of December, with the last drawing being triggered by the satisfactory observance of those criteria.

Mr. Kafka commented, in response to a remark by Mr. de Vries, that neither discounts nor premia should be put on delayed approval of a program under an arrangement. He also looked forward to an explanation of the catalytic effect of arrangements similar to those for Ivory Coast.

The Chairman recalled that several Executive Directors had raised the question of access limits in relation in particular to countries where the Fund could play a catalytic role. He recalled that in his statement at EBM/83/183 (12/28/83), he had expressed the view that in a fruitful discussion on December 19 (EBM/83/177), the Executive Board had "achieved broad agreement on the matters set out in EBS/83/270 (12/16/83) including the three issues requiring decisions and also the understanding that the broad thrust of the staff paper on considerations governing amount of access would provide guidance to the staff," (Part II of EBS/83/233). The staff had to have a policy to work with, and it was in fact following the guidelines set out in the latter paper, not in a mechanistic way, but flexibly, taking account of the individual circumstances of member countries. It was clear that the effect of the Fund's support for Ivory Coast would have to be catalytic. The prospect was for long-term balance of payments difficulties, with relatively little hope of regaining a viable balance of payments position in the short term; the member was already fairly heavily indebted to the Fund, with a high level of repurchases and charges looming on the horizon. Thus, the Fund would probably be called upon to assist Ivory Coast for a number of years to come, and it was in the interests of both the Fund and Ivory Coast that it had restrained its financial support. Otherwise, the catalytic effect would not be forthcoming for quite some time.

The Deputy Director of the African Department, in response to a question by the Chairman, said that a review geared to performance criteria for the end of 1984 would in practice mean that the last purchase would probably be made in April. More important, it would become necessary to ask the Minister of Economy and Finance to change the letter of intent.

The Chairman suggested that the review by the staff should take place somewhat later than planned so that an assessment could be made of progress under the program as late as possible in 1984, without waiting for verification of the observance of the performance criteria until the end of 1984.

The staff representative from the Exchange and Trade Relations Department explained that the program already contained figures for end-December that could serve as performance criteria, but in order to avoid the need to change the letter of intent, an alternative would be to delay the second review under the program, as the Chairman had proposed, to permit a review of developments over a longer period of the arrangement.

Mr. Erb considered that holding the second review later in the year would be a good solution.

The Executive Directors agreed to resume their 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/84/69 (4/30/84) and EBM/84/70 (5/2/84).

3. ENLARGED ACCESS POLICY - VALUE DATE OF PURCHASES - AMENDMENT OF RULE G-4(b); AND AMENDMENT OF PARAGRAPH 7 OF FORMS OF STAND-BY AND EXTENDED ARRANGEMENTS

a. Amendment of Rule G-4(b)

Effective July 3, 1984, Rule G-4(b) shall read as follows: "(b) The value date for a purchase that involves resources borrowed by the Fund under the policy on enlarged access, and that is in accordance with the stand-by or extended arrangement, will normally be either the 15th or the last day of the month, or the preceding business day if the day selected is not a business day. If the request for the purchase is not received in the Fund in time for its instructions to be issued for the first of these value dates following the date of receipt, the purchase will be executed at the next such value date."

Decision No. 7687-(84/70), adopted
May 1, 1984

b. Amendment of Paragraph 7 of Forms of Stand-By and Extended Arrangements

Paragraph 7 of the form of stand-by and extended arrangements under the enlarged access policy (attached to Decision No. 6838-(81/70), 4/29/81) shall be amended to read as follows: "7. The value date for purchases under this [stand-by] [extended] arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. (Member) will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d)." (SM/84/85, 4/24/84)

Decision No. 7688-(84/70), adopted
May 1, 1984

4. MEDICAL BENEFITS PLAN - REVIEW

The Executive Board approves the recommendations to amend the Medical Benefits Plan with respect to the coverage of dependents, the payment of benefits, and monthly contributions for retiring staff members, and to keep certain other matters under review, as set forth in EBAP/84/86 (4/27/84).

Adopted May 1, 1984

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/85 (4/27/84) and EBAP/84/87 (4/30/84) is approved.

6. <u>STAFF TRAVEL</u>

Travel by the Managing Director as set forth in EBAP/84/91 (5/1/84) is approved.

APPROVED: October 15, 1984

JOSEPH W. LANG, JR.
Acting Secretary