

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/87/240
Correction 1

CONFIDENTIAL

December 28, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Monitoring of Structural Adjustment in Fund-Supported
Adjustment Programs

The following corrections have been made in EBS/87/240 (11/20/87):

Page 22, Table 1, columns 2 and 3, Ecuador: insert "X"

penultimate line: for "24 12"
read "25 13"

last line: for "11.7 5.9"
read "12.2 6.3"

Page 24, Table 2: figures revised.

Corrected pages are attached.

Att: (2)

or specified with adequate precision. In such instances, the need for a precise specification of review clauses to restrict the extent to which purchases are based on discretionary judgment, and hence to limit the uncertainty for a member about what has to be achieved before a purchase can be made, must be balanced against the need for flexibility given the uncertainties involved. Reviews also provide an opportunity for the broad evaluation of performance that is necessary for assessing whether modifications need to be made to program design, or for establishing performance criteria for subsequent periods.

A divergence from indicative targets set for variables subject to supplementary monitoring triggers a consultation with Fund staff and management but does not automatically interrupt the right to make purchases. Supplementary monitoring may be appropriate, in particular, for variables whose linkage to program objectives is indirect or for which data is subject to delay or of limited quality, but which nevertheless are important for assessing progress in policy implementation.

b. Monitoring of structural adjustment arrangements

Monitoring of structural policies under the SAF primarily takes the form of benchmarks that are intended to delineate the expected path of structural reform and to facilitate the evaluation of progress under SAF arrangements, but which do not have the character of performance criteria and are not directly linked to purchases. At the June 1987 Board discussion of experience with the SAF, it was reaffirmed that structural benchmarks need to be formulated in specific terms to provide a clear understanding of the expected path of program implementation. It was also emphasized that benchmarks in general should be confined to those few variables that are considered most important for program monitoring. In addition, a role was seen for prior actions where it was crucial that an important first step need to be implemented, or where past performance had been difficult.

2. Application to structural adjustment in recent Fund arrangements

a. Upper credit tranche stand-by and extended arrangements

Although upper credit tranche stand-by arrangements, and to a greater extent extended arrangements, have typically incorporated structural policies in a number of areas, ^{1/} formal monitoring of structural policies has been comparatively limited and has been concentrated in areas of traditional Fund concern.

This is particularly true of performance criteria, which have been largely confined to the exchange and trade system (Table 1). This

^{1/} Policies are judged to be part of a program where they are referred to in a letter of intent or an attached memorandum of economic policies.

Table 1. Upper Credit Tranche Stand-By and Extended Arrangements with Structural Performance Criteria, 1979-87 1/

Country	Effective Date	Exchange System	Trade System	Tariff Structure	Financial Sector	Pricing Policy	Fiscal Policy
Sudan	05/04/79		X				
Nicaragua	05/14/79	X	X				
Turkey	07/19/79	X					
Peru	08/10/79		X				
Turkey	06/18/80	X					
Pakistan	11/24/80		X				
Romania	06/15/81	X					
Kenya	01/08/82		X				
Sudan	02/22/82					X	X
Uganda	08/11/82	X					
Chile	01/10/83	X					
Dominican Republic	01/21/83						X
Argentina	01/24/83		X				
Sudan	02/23/83						X
Brazil	02/28/83	X	X				
Turkey	06/24/83	X	X				
Ghana	08/03/83	X					
Guatemala	08/31/83	X					
Sri Lanka	09/14/83	X					
Uganda	09/16/83	X					
Portugal	10/07/83			X			
Zaire	12/27/83	X					
Turkey	04/04/84	X	X				
Yugoslavia	04/18/84	X			X	X	
Argentina	12/28/84	X	X		X		
Ecuador	03/11/85	X	X				
Mauritania	04/12/85	X					
Zaire	04/24/85		X				
Yugoslavia	05/16/85	X			X		
Chile	08/15/85	X		X			
Bolivia	06/19/86	X					
Ecuador	08/15/86	X	X		X		
Egypt	05/15/87	X					
Somalia	06/29/87	X				X	
Argentina	07/23/87	X			X		
Total number of arrangements		<u>25</u>	<u>13</u>	<u>2</u>	<u>5</u>	<u>3</u>	<u>3</u>
(In percent)							
Proportion of total arrangements 1979-87 <u>1/</u>		12.2	6.3	1.0	2.4	1.5	1.5

1/ Up to end September, 1987

emphasis reflects both the Fund's special mandate in this area and also the direct and potentially major influence of distortions in the exchange and trade system for external adjustment. Exchange rate policy, typically specified in terms of achieving a target for the real exchange rate, has been subject to a performance criterion in many arrangements. ^{1/} Performance criteria have also related to steps toward unification of official and parallel exchange markets or to the elimination of restrictions on current payments. Specific trade liberalization measures, such as the removal of quantitative restrictions for specified items, sometimes accompanied by tariff adjustments, or the removal of import guarantee deposits, have also been subject to performance criteria in a number of cases.

Performance criteria have also been applied to interest rate policies to ensure greater flexibility in a limited number of instances. In a few cases, the achievement of a particular real interest target has been required. In at least one case, however, the performance criterion required liberalization of specified deposit and lending interest rates. In the areas of fiscal reform and price liberalization, specific measures have also been performance criteria in a small number of instances.

The range of structural policies monitored through program reviews has widened since the early 1980s beyond the traditional areas of exchange and trade system and interest rate policies (Table 2). In particular, progress with public enterprise reform has often been subject to review. Reforms affecting the tax system, the civil service, agricultural pricing and marketing, and public investment program reform have also in some cases been monitored through reviews. Arrangements have varied widely in the specificity of structural review clauses. In some instances, specific steps to be taken have been clearly identified, but in other instances expected progress has been less well defined. Particularly for public enterprises, trade system and agricultural marketing reform, the required policy implementation has tended to be specified in greater detail when there has been substantial World Bank involvement. Where policy formulation was at an early stage, completion of studies or announcement of proposals has been in some cases subject to review.

Policy measures related to the exchange and trade system and pricing policy have been taken as prior actions in a number of cases. ^{2/} In particular, implementation of at least the first stage of a reform of the exchange system at the outset has been viewed as essential for the success of an adjustment program in several instances. Prior actions have also been required in other structural fields,

^{1/} The adequacy of exchange rate policy is also often monitored through a balance of payments test.

^{2/} Pricing actions have mostly involved specific increases in regulated prices, particularly in agriculture, but have also included price liberalization.

Table 2. Structural Policies in Upper Credit Tranche
Stand-by and Extended Arrangements Covered by Mid-Year Reviews, 1979-87 ^{1/}

(In percent of total number of arrangements)

	Exchange rate policy	Interest rate policy	Pricing	Trade/ Tariff system	Exchange system	Fiscal policy	Public enterprises	Financial sector	Other
1979	25	--	--	--	5	--	--	--	--
1980	9	4	--	4	4	--	--	--	4
1981	7	--	4	--	7	--	--	--	--
1982	32	18	5	5	18	5	--	--	5
1983	26	17	14	11	23	3	9	--	6
1984	33	19	4	10	19	14	14	10	10
1985	19	12	12	4	15	8	23	4	4
1986	45	12	32	18	14	50	36	18	5
1987 ^{1/}	11	11	11	--	22	11	22	11	22
1979-87 ^{1/}	23	11	9	6	14	9	11	4	5

^{1/} Up to end-September, 1987.