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FOR
AGENDA

EBS/87/245
Correction 1

CONFIDENTIAL

December 3, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Enhancement of the Structural Adjustment Facility -
Operational Arrangements

The following corrections have been made in EBS/87/245 (11/25/87):

Page 3: delete first line

2nd full para., last line: for "September 1989."
read "September 1988."

A corrected page is attached.

Att: (1)

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unsatisfactory, or when arrangements involved a frontloading of disbursements.

The existing SAF would continue to operate in its present form. Eligible countries that have already had a SAF arrangement approved could continue with that arrangement to its completion or could cancel the arrangement and request a three year arrangement under the enhanced SAF. Members that have not yet used SAF resources would have the option of choosing between an existing or enhanced arrangement prior to a specified cutoff date. It is expected that most members will find it preferable to request arrangements under the enhanced SAF rather than the existing SAF, and management and staff would recommend such an approach. Thus, eligible members would be encouraged to enter into a full three-year arrangement under the enhanced SAF as soon as it was practical.

Directors agreed that the discussion of the SAF enhancement on December 11 would be sufficient to satisfy the requirement for a review of the existing SAF. However, since this date would be somewhat early to evaluate the disposition of uncommitted SDA resources, it is proposed that a decision relating to the potential access of each eligible member in the third year of existing SAF arrangements be postponed until no later than September 1988.

Assumptions relating to the amount of resources available for lending under the enhanced SAF, the terms of this lending, and the eligible members that would wish to borrow under the facility, remain as described in EBS/87/230 (11/9/87).

Existing policies regarding disbursements to members with overdue obligations to the Fund would be retained; the issue would, however, be taken up in the context of a future review of overdue obligations.

2. Outstanding issues and points of clarification

There remain three issues that were not resolved during the Board discussion of November 20. In particular, Directors inquired (a) whether greater flexibility could be considered in the setting of the cutoff date for access to the enhanced resources; (b) whether resource availability would permit a higher maximum access limit than that suggested in the staff paper; and (c) what degree of frontloading would be feasible in light of the access limit and prevailing resource constraints. In addition, Directors requested clarification of a number of points relating to the relationship between the existing and enhanced facilities; and the conditions under which access during the period of an enhanced arrangement might be reduced.

a. Cutoff date

In EBS/87/230 (11/9/87), it was proposed that the cutoff date for the enhanced SAF be set at May 1989, while access to the existing SAF be continued and be reviewed before May 31, 1989. After providing for semiannual disbursements over three-year program periods and scope for delays in disbursements, this date would be consistent with the suggestion tentatively made by the staff that lenders' commitments run to mid-1992, which would represent the final possible date for disbursements by the Trust. A number of Directors have indicated that flexibility in setting the cutoff date would be desirable in order to provide members with sufficient time to undertake the necessary preparations for entering into an enhanced SAF arrangement. However, one Director considered that the final drawdown date for loans to the Trust should be end-1991 rather than mid-1992; this would require either an earlier cutoff date than that proposed or limiting the possibility for delays in disbursements.

On balance, the staff would consider it desirable to provide the maximum flexibility to borrowing countries and suggests that consideration be given to setting the cutoff date at November 1989, provided that contributing countries agree to a drawdown period through June 1992. It should be recognized, however, that with a mid-1992 date for completion of disbursements, any extension of the cutoff date beyond May 1989 would imply increasingly less scope for delays in disbursements under enhanced SAF programs the closer was the approval of an arrangement to the cutoff date. There would be virtually no scope for delays in concluding mid-term reviews or subsequent annual arrangements in those three-year arrangements that were approved in the final few months prior to November 1989. In consequence, if any significant delay in concluding discussions during the arrangement occurred, there would have to be either a permanent reduction in access for the borrowing member or adjustments to the amounts of subsequent disbursements. The staff seeks the Executive Board's guidance on this matter.

If a cutoff date of November 1989 for access under the enhanced facility was agreed upon, it would be proposed that the review of the existing SAF take place before that date.

b. Access limits

If the enhanced SAF is to be an effective instrument in addressing the balance of payments problems of the low-income countries, the facility must make available adequate resources in relation to the financing requirements required to support strong adjustment policies. At the same time, adequate access should be potentially open to as broad a range of eligible members as possible and access policy must ensure that the Trust is not exposed to undue risk by allowing its claims to be concentrated amongst a limited number of countries. It was with these