

MASTER FILES
ROOM C-130

D404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/93

3:15 p.m., June 19, 1987

M. Camdessus, Chairman

R. D. Erb, Deputy Managing Director

Executive Directors

Alternate Executive Directors

Dai Q.
C. H. Dallara
J. de Groot

S. M. Hassan, Temporary

M. K. Bush

M. Finaish

E. C. Demaestri, Temporary

B. Goos

J. Reddy

J. Hospedales

T. P. Lankester

J. Ovi

H. Lundstrom

M. Massé

N. Toé, Temporary

I. A. Al-Assaf

G. Ortiz

L. Filardo

H. Ploix

S. de Forges

G. A. Posthumus

C. R. Rye

O. Kabbaj

A. K. Sengupta

L. E. N. Fernando

K. Yamazaki

M. Sugita

S. Zecchini

N. Kyriazidis

L. Van Houtven, Secretary and Counsellor

S. L. Yeager, Assistant

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SECRET

Also Present

IBRD: M. L. Fox, Operations Policy Staff; E. R. Grilli, Economics Research Staff. African Department: R. J. Bhatia, Deputy Director; L. M. Goreux, Deputy Director; E. L. Bornemann. Asian Department: K. A. Al-Eyd, L. Mendras, E. A. Milne, G. Szapary. European Department: P. B. de Fontenay, Deputy Director. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; W. A. Beveridge, Deputy Director; M. W. Bell, E. Brau, B. Christensen, H. Flug, H. Hino, H. B. Junz, N. Kirmani, M. Nowak, R. L. Sheehy. External Relations Department: A. F. Mohammed, Director; R. W. Russell. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: W. E. Holder, Deputy General Counsel; A. O. Liuksila, R. H. Munzberg, J. M. Ogoola. Middle Eastern Department: K. Nashashibi, M. Yaqub. Research Department: O. E. G. Johnson. Secretary's Department: C. Brachet, Deputy Secretary. Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; J. E. Blalock, D. Gupta, D. V. Pritchett. Western Hemisphere Department: J. O. Bonvicini, M. Caiola, J. Ferrán, S. J. Stephens, G. Yadav. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: E. Ayales, L. P. Ebrill, G. D. Hodgson, A. Ouanes, P. Péterfalvy, I. Puro, A. Vasudevan. Assistants to Executive Directors: F. E. R. Alfiler, R. Comotto, F. Di Mauro, W. N. Engert, S. K. Fayyad, V. J. Fernandez, M. A. Hammoudi, M. Hepp, L. Hubloue, A. Iljas, K.-H. Kleine, M. A. Kyhlberg, M. Lundsager, V. K. Malhotra, R. Manfredi Selvaggi, J. A. K. Munthali, D. V. Nhien, C. Noriega, J. K. Orleans-Lindsay, S. Rebecchini, G. Schurr, B. Tamami, H. van der Burg, E. L. Walker, I. Zaidi.

1. STRUCTURAL ADJUSTMENT FACILITY - REVIEW OF EXPERIENCE

The Executive Directors continued from a previous meeting (EBM/87/91, 6/18/87) their consideration of a paper reviewing the experience under the structural adjustment facility (EBS/87/46, 2/27/87; and Sup. 1, 6/9/87). They also had before them the Managing Director's statement at IS/87/3 (6/12/87) on enhancement of the resources under the structural adjustment facility.

Mrs. Filardo made the following statement:

The staff paper provides a comprehensive review of the evolution and implementation of the structural adjustment facility. The well-organized discussion analyzes in depth the main issues on which the staff seeks guidance from the Board.

When the Board discussed the creation of the facility (EBM/86/55 and EBM/86/56, 3/26/86), one of the main conclusions was that the facility's ability to mobilize additional resources was crucial to its success. Otherwise, the resources of the Special Disbursement Account and a portion of the resources provided by the International Development Association (IDA) would continue to be used to support programs involving increased conditionality and cross-conditionality. In this regard, experience with the structural adjustment facility has been disappointing. We therefore welcome the Managing Director's valuable initiative for enhancing the facility's resources. He has correctly stressed the urgent need to handle the problems of low-income countries facing protracted balance of payments difficulties. Concessional resources are clearly required for those countries willing to implement sound macroeconomic policies and structural reforms in order to achieve growth and balance of payments viability and to reduce their critical level of debt service.

The initiative to enhance the facility's resources is still at an early stage. The first step, in which management is now engaged, is to obtain broad support from the membership. The modalities of participation and implementation, which have been put forth on a preliminary basis, are in the right direction. However, the additional resources being requested should, in fact, augment existing flows; the enhancement should not become a substitute for existing aid resources. Moreover, other avenues of financing should be explored. Mr. de Groote has circulated a note on alternative financing methods for enlarging the facility, which suggests, in particular, a conditional SDR allocation and the creation of a structural adjustment facility subsidy account, which could be used to introduce an element of concessionality in the use of SDRs. In this connection, I would point out that the recent report of the Group of Twenty-Four sets forth special recommendations on structural adjustment facility financing, including the creation of a special facility to provide subsidies

to eligible countries on their use of existing facilities. This proposal, which would obviously contribute to the enlargement of Fund resources available for low-income countries on concessional terms, is similar to Mr. de Groote's proposal regarding creation of a subsidy account.

As for the structural adjustment/policy framework process, the identification of macroeconomic issues and structural reforms is in the right direction. Nevertheless, to provide for long-term sustained growth and development, the eligible member's commitment to this process is crucial as well as the time horizon to implement the policies in the framework paper and the availability of financial resources.

I emphasize the time horizon because the staff paper gives the impression that the timely repayment of obligations to the Fund remains a basic objective in the formulation and content of any program supported by the Fund. The revolving character of Fund resources compels the staff to design a program which follows the traditional approach to adjustment and is dominated by demand-management policies, despite the urgent need for growth-oriented adjustment policies in low-income countries. Some lessons drawn from experience with the World Bank's structural adjustment loans, which are conceptually similar to structural adjustment facility loans, might be useful in this connection. During the first review of the Bank's facility by the Executive Directors of the Bank, 15 structural adjustment loans were audited. Originally, it was expected that structural reforms could be completed in five to seven years; in fact, implementation took more time than anticipated, and, when the measures were implemented, even longer to show results. The World Bank staff recognized that even in those countries performing most successfully, where the program implementation worked smoothly, it was necessary to complete a series of five structural adjustment loans. Depending on the country's circumstances, longer periods and even more programs may have to be considered. This experience deserves careful consideration when designing programs to be supported by structural adjustment arrangements.

The role of the Fund in the growth-oriented strategy envisaged in the facility is unclear, because the agreed flexibility of the program is working mostly in one direction--namely, stretching or contracting adjustment in order to close the financing gap owing to a lack of financial resources and constraints implied by the revolving nature of Fund resources. In this sense I agree with Mr. El Kogali that serious consideration should be given to extending the maturity period of loans; this would be particularly relevant in the context of an enlarged facility.

On the role of the policy framework paper and related issues, the process of coordinating for a program that contemplates more in-depth analysis and identification of macroeconomic and structural reforms and greater Fund-Bank collaboration is inherently time consuming and very costly in terms of staff resources. The complexity of this process should be recognized and should result in a program that is feasible to finance in a medium-term, growth-oriented framework. The question of the role of the policy framework paper must focus on the availability of resources under the facility itself rather than on the use of the framework paper to condition donors' aid, which could imply cross-conditionality. Therefore, it is particularly urgent to provide the facility with sufficient resources and to submit a proposal in support of the Managing Director's initiative to the Interim Committee at its meeting in September. Nevertheless, donor and recipient countries should feel free to use the policy framework paper to mobilize resources, but it should be circulated to them only with the approval of the member's authorities. As for a continuous three-year horizon for a policy framework paper, it seems appropriate that whatever time horizon is finally agreed upon, the program should be updated annually, incorporating an additional year in the macroframework and policy prescriptions.

While great progress has been achieved in Fund-Bank collaboration, overlapping and pronounced discrepancies emerged when the staff of both institutions were developing the policy framework paper, although these were usually resolved prior to the initiation of the staff's negotiations with the authorities of the member concerned. However, the limited involvement of the authorities in the preparation of the papers is a cause for concern. We support the views expressed in the Group of Twenty-Four's "Report on the Role of the Fund in Adjustment with Growth" that, notwithstanding the above-mentioned discrepancies in the final analysis, a government's view should prevail; that each institution should develop the area of its competence and expertise; and that coordination should be pursued in a way that avoids delays in the approval of the policy framework paper.

On program design, the Managing Director's summing up on March 28, 1986 indicated that the intention was not to overload program design with conditionality, but to take proper measures when performance has been unsatisfactory. Benchmarks were therefore to be constructed in a flexible way to help monitor progress in policy implementation. Nevertheless, 10 of the 12 structural adjustment arrangements requested by members have been associated with stand-by arrangements and the performance criteria in the stand-by arrangement have served as the financial benchmarks for the annual structural arrangement under the program. Moreover, according to the staff paper, "in the two SAF-only cases the design of the financial benchmarks was similar to that of performance criteria that have been used in stand-by

arrangements or arrangements under the extended Fund facility with these countries in the past." Even though from the structural adjustment facility loans are intended to foster growth prospects and, in fact, growth has been targeted in the three-year programs, the application of conditionality similar to that applied under stand-by arrangements seems instead to reinforce the adjustment strategy without contemplating real growth. This observation is confirmed by the staff's statements that "the determination of output in the short run, especially in the context of substantial adjustment efforts, is complex," and that "more growth orientation cannot and should not be equated with a larger current account deficit." It is clear that given the revolving character of Fund resources and the lack of availability of financial flows, the staff falls into the temptation of designing a traditional Fund program that contemplates the tightening of conditionality in order to fill the financing gap. In spite of the Board mandate to build benchmarks in a flexible manner, there has been a proliferation of performance criteria and an overloading of conditionality in programs under structural adjustment arrangements that have discouraged countries from using the facility. Therefore, it is important that the process be kept as simple as possible, with few benchmarks.

As to the eligibility criterion of a protracted balance of payments need, it has to be applied flexibly and on a case-by-case basis; any mechanistic application should be avoided.

On access limits, in view of the limited resources available to the facility, we support increased second-year disbursements as proposed by the staff, and even larger access in the second and third years, if possible, in view of the likely increase in resources available to the facility.

The structural adjustment facility process will succeed only if a combination of factors converge: sufficient financial resources, growth-oriented program design, an adequate time horizon to accomplish objectives, commitment on the part of the authorities, and close Fund-Bank collaboration. This convergence is difficult and will take time. Nevertheless, we hope that all parties will contribute to it in a flexible and successful manner.

Mr. Posthumus made the following statement:

I support the Managing Director's initiative to expand the structural adjustment facility at this stage, and I support efforts to do this as quickly as possible. While we review the facility today on the basis of experience, we should therefore also have in mind that we intend to expand it. This might mean that changes may be required from both points of view.

It sometimes seems that the stand-by arrangement is now considered an outdated instrument for assisting the poorest and most indebted countries. And that, rather, the structural adjustment facility is the instrument to help them on the road to economic growth, that the facility is necessary to prevent a further reduction of the Fund's involvement in the poorest countries, or that the facility is the instrument to maintain the Fund's central role in the debt strategy. Thus, it seems that the Fund is changing its role, one Director stated explicitly.

In his recent remarks to the Society for International Development, the Managing Director gave a formulation of the activities of the Fund which I found particularly clear. He underlined that prompt and orderly adjustment protects the growth of the economy, currently and in the future. And he added: "But the question that needs to be asked--and is asked too seldom--is what would have happened in the absence of Fund-supported programs and the financial support that they provide, both directly and indirectly."

These sentences make it clear to me that adjustment and growth are indivisible, and that the role of the Fund is to prevent, through temporary financing, the adjustment process from becoming disruptive and damaging to growth. My conclusion is that the stand-by arrangement must always remain available for all countries, however poor or indebted, because there will always be situations where it is better than nothing. The stand-by arrangement of course requires the repurchase of drawings by the adjusting country, and to preserve the unique funding of the Fund--its monetary character--these repayments must take place within a rather short term. The adjustment required is what from the point of view of the Fund is called conditionality. In many cases the burden of repayment of the stand-by credit is very heavy. If balance of payments viability takes longer to achieve, then credits on more concessional terms, either in addition to or as a substitute for stand-by arrangements, would be warranted. I would like to view the structural adjustment facility from this perspective: the facility enables slower repayment, but it does not make adjustment less urgent or less necessary. The problem with the stand-by arrangement is not its conditionality, because adjustment would be necessary anyway, but in some situations its financial terms, and its lack of concessionality. And there is no doubt that for the poorest countries, certainly in the situation that many of them face now, concessionality is of the essence. The Fund therefore is not changing its role.

I realize that the structural adjustment facility as it exists does not wholly fit by description: perhaps the extended Fund facility more closely matches it apart from the concessionality aspect, although the extended facility's requirement of a

three-year program may be too difficult a condition. In commenting, however, upon several of the issues raised in the staff paper, I take as a starting point that it would be best to stay with a facility as near as possible to the stand-by arrangement approach, while of course paying attention as much as possible to the structural aspects. To some extent this is what has happened so far in practice. According to the staff paper, "The design of structural adjustment facility programs has shared a common characteristic with stand-by arrangements regarding the fundamental objective of external viability to be achieved through the adjustment effort." The staff adds that greater concessionality allows for a slower pace of adjustment; but that, in my opinion, is not necessary, nor is it necessarily better.

It follows from these remarks that I cannot agree with Mr. Massé when he states that the Fund is both a stabilization and development institution. While the Fund fosters development in the sense that adjustment and growth are indivisible, it certainly is not and should not be a development institution.

On specific issues, I can say at the outset that I concur with those Directors who have indicated that it would be premature to introduce major changes. As regards the role of policy framework papers, I think that we should not expand it at this time; in fact I have doubts about its usefulness and realism. Furthermore, its major goal--to provide an agreed medium-term context for structural adjustment facility and IDA adjustment lending between member country, the Fund and the Bank--has not yet been attained. It seems that sometimes the member country concerned is not fully involved, which I find unacceptable. Also, I have the feeling that the World Bank is not very active in fulfilling its role. I think that it is absolutely necessary that the Bank is involved fully in all cases; I do not think that it is wise to make exceptions in this regard. After all, structural adjustment and development are fields within the competence of the Bank and not within that of the Fund. I do not think that it will make much difference for bilateral aid agencies to have the policy framework papers. The decisions of donors take into account a number of factors that are often more important to them.

Therefore, and in order to save staff time, it would seem undesirable to have detailed information on possible areas where cofinancing with bilateral donors seems useful. I do not favor rolling policy framework papers; after all, the life of the facility is three years only. In this respect I would also like to stress flexibility and pragmatism--key words for the operation of the whole facility--in the content and format of policy framework papers. Finally, I see much merit in the course taken so far, namely, to have the papers and structural adjustment arrangement presented together as much as possible.

As regards access, the staff proposal to raise second-year access to 30 percent of quota, and third-year access to 20 percent is acceptable to me.

As regards conditionality and program design, it follows from my general introduction that at this time changes are in my opinion not warranted. If an enlargement of the facility becomes more probable, conditionality should be considered again, and I would think that in that situation we should move in the direction of conditionality under stand-by arrangement, certainly in those cases where a stand-by arrangement is not warranted because of its repayment modalities.

The protracted balance of payments criterion should be applied strictly: this is according to my view about the nature of the facility. Future rising costs of debt service, including repayments to the Fund, for example, are an element of the balance of payments, which indicates eligibility to use the structural adjustment facility.

Mr. Zecchini made the following statement:

The decision to postpone this discussion until now was appropriate: significant progress in the debate on the structural adjustment facility has been achieved since the issuance of the staff paper in February. In particular, today we can address this subject also in light of the Managing Director's recent proposal and the positive reaction of the Heads of State and Government of the Group of Seven major industrial countries to that proposal at the recent Venice summit.

Undoubtedly, one year of operation of the facility is too short a period to allow this Board to assess the experience with it and to review this mechanism, particularly if we consider that the facility deals with long-term solutions to structural problems and, consequently, there is not enough evidence of the results on which to base our assessment. Therefore, we view this discussion as a first opportunity to address some of the issues that have emerged in the operation of the facility and to establish some guidelines for developing the facility into a more effective financial instrument aimed at supporting the Fund's strategy for coupling adjustment with economic growth.

Overall, the first year of operation was broadly satisfactory, since the Fund managed to complete a fairly large number of agreements, and an even larger number of arrangements have reached an advanced stage. This cannot, however, overshadow three different orders of problems that are related to the design

of the policy framework papers, the level of financial resources that can be mobilized, and the speed and effectiveness of the procedures for completing a structural adjustment arrangement.

It is disappointing to see that policy framework papers reflect more the work of the staff in Washington than the independent initiative and the full commitment of the authorities to a definite economic strategy. The introduction of policy framework papers was intended as a means to induce countries to ponder and make choices about both the main economic targets they intend to pursue in order to ease the external and structural constraints to economic growth and the main policy instruments they want to use. The definition of this strategy and a strong commitment to implement it on the part of the authorities is a precondition to benefiting from the facility's resources. The role of the staff should be limited to that of providing technical advice to help the authorities ensure the coherence of the strategy, particularly the consistency between targets and instruments. If the authorities do not take the initiative in defining their strategy or show a strong political commitment to implement it, structural adjustment facility loans should not be granted.

The importance of the policy framework paper is also highlighted by its relationship with the structural adjustment program. The policy framework should consist of a general program, covering a three-year period, possibly on a rolling basis, and should cover the main objectives, policy instruments, and economic reforms of a structural type. By contrast the structural adjustment program should spell out the specific actions that will be taken in the context of the policy framework paper for the year under consideration. Moreover, the program has to define the benchmarks or indicators that are to be used to monitor progress in achieving the targets. It does not seem appropriate to put more emphasis on structural adjustment programs than on policy framework papers, as the staff tends to do, because the policy framework papers set the direction toward which the programs have to be aimed and give to the programs a content different from the standard Fund conditionality.

With regard to the level of financing under the structural adjustment facility, no one can deny that it is relatively modest. This modest size can in part explain the lack of enthusiasm on the part of several countries about taking pains to formulate their economic strategy for use of the facility. This facility has so far failed to catalyze additional financing from major creditor or donor countries. In this respect, we do not agree with the staff who, as a result of a round of interviews in some capitals, believes that there is lack of interest on the part of major industrial countries in using the policy framework paper and structural adjustment arrangements to correct the orientation of their financing for developing countries or to expand this

financing. The staff's impression is based in part on the fact that its discussions in those capitals were not held with top officials who are deeply involved in policymaking. The absence so far of a catalytic role for the structural adjustment facility is also imputable to the past lack of action on the part of the Fund in soliciting new financing, unlike the effective catalytic action which is deployed for stand-by arrangements. This shortcoming, however, is being corrected with the recent new proposal of the Managing Director. In our opinion, both the policy framework paper and the annual programs can be used to sharpen the focus of the allocation of major countries' financing to development, and to raising the volume of these resources, and in the context of the Paris Club rescheduling of debt. It is clear that the larger the structural adjustment facility or parallel resources are, the deeper the involvement of developing countries in structural adjustment efforts will be.

With respect to procedural issues, experience shows that there have been delays in arranging programs and less than satisfactory collaboration with the World Bank. These are signs of the difficulties that were expected in designing the programs and in reconciling the different orientations of the Fund and the Bank. These difficulties, nevertheless, should not induce us to desist from pursuing a more extensive cooperation with the country and the Bank in designing the program, even in cases in which the Bank is not interested in providing the financing aspect. Any reluctance on the part of the Bank could be easily overcome by direct contacts between the management of the two institutions.

Policy framework papers could be discussed by the Board separately from structural adjustment programs, they could have a three-year rolling framework, and they should incorporate the major structural reforms, although the analytical background does not need to be fully articulated at the outset. More detailed diagnosis and analysis of the problems could be presented at a later stage. Only when this analytical part is completed does the policy framework paper acquire such a dignity that it can be circulated outside the Fund to help mobilize additional financing.

As to structural adjustment programs, more attention has to be paid to monitoring structural reforms. The level of access for the second year has to depend on successful implementation of policies; access could be raised above 20 percent in the second year, but to a level that is in line with the degree of success in program implementation.

We strongly endorse the Managing Director's recent proposal, since industrial countries, and particularly those in structural surplus, should contribute a greater amount of resources to the developing world than they have in recent years, especially as the private financial community is reducing its overall exposure to these countries.

Management's proposal involves a bigger role for the policy framework paper in laying out the path of adjustment and a more precise definition of the conditions that have to accompany the increased financing. The terms of financing for the additional resources must be as concessional as those for the structural adjustment facility, although they need not be identical.

The proposed form of enhancement of the facility's resources as well as the conditionality of structural adjustment programs seem particularly appropriate for many indebted countries, since the facility would then be a better substitute for stand-by or extended arrangements in these cases. In fact, on recent occasions we have expressed our doubts about using stand-by or extended arrangements for countries with long-term structural adjustment problems and limited room for strong adjustment in the short term.

For our part, we are studying the technical modalities by which we can implement management's initiative, and we will make our position known in the coming months. In this connection, I wish to raise two aspects that are not spelled out in this initiative. First, we must analyze how the financial risk involved in additional lending, either bilaterally or through a trust fund account, could be shared, in part, on a collective basis. It is evident in this respect that a trade-off must exist between the concessionality element, which is required in these new loans, and the financial risk involved in the destination of these loans. Second, we must consider the advisability of widening the list of eligible countries to include those countries with per capita incomes somewhat above the present limits. For instance, countries like Egypt with external structural adjustment problems, should be able to draw on this new source of resources. This would help the Fund in restoring consistency between the use of the stand-by arrangement instrument and the short-term objective of adjustment that that instrument--according to our rules--is required to pursue.

Mr. Demaestri made the following statement:

We welcome the Managing Director's proposal at the Venice summit to enhance the resources of the structural adjustment facility, and we commend the Governors of the summit countries for their support of the initiative. In this way, we hope that the efforts to resolve the extreme difficulties of the low-income countries will be strongly supported by the international community.

In view of the proposed enhancement of the structural adjustment facility, it is important at this stage to reach an agreement on the issues raised by the staff to improve the functioning and

increase the efficiency of the facility. However, experience with the facility is too short--only 15 months--to evaluate the results in terms of achieving the policy goals of adjustment and growth associated with structural adjustment arrangements. Therefore, we can only evaluate the operational aspects of the facility, as it is currently designed.

Up to June 1987, 12 programs, representing 24 percent of quotas of the eligible countries, have been approved by the Board. We recognize the complexity of the problems faced by the low-income countries and the difficulties inherent in the process of negotiating and reaching agreement on the comprehensive structural changes needed to solve the deep-seated problems and in mobilizing adequate financial support. Therefore, we could accept greater flexibility in the process for approving structural adjustment arrangements, if such flexibility implied a faster pace for the use of the facility's resources in the future.

Our comments on the issues raised in the staff paper are made in the light of the need to expedite the structural adjustment facility process.

The existence of protracted balance of payments problems should not be a necessary requirement to use the facility. Potential balance of payments problems as a result, for example, of the need for additional investment to sustain faster growth should also be a sufficient criterion for eligibility.

We would emphasize the importance of sustained growth considerations in designing structural adjustment programs: it is important because it is absolutely necessary to raise the low income level of these countries, and structural adjustment programs are likely to fail without sustained growth. The participation of World Bank staff in the preparation of these programs is important, but it should not be an absolute requirement for the preparation of policy framework papers.

Negotiations for the use of the facility's resources should be conducted through a simple, fast process. Similarly, it would be useful to circulate policy framework papers separately from papers on structural adjustment arrangements if the beneficiary country agrees.

Under the present circumstances, increasing the conditionality applied to loans from the facility is undesirable. In this regard, we should avoid cross-conditionality, the incorporation of policy commitments for more than one year in the letter of intent, and the requirement of prior actions when they are not strictly necessary. Benchmarks should be limited to a few key

variables and should be monitored in a flexible way. For example, individual targets could be waived automatically if overall economic performance is satisfactory.

We are especially concerned about the scarcity of financing available from other sources for eligible countries. The availability of additional resources is of great importance for the success of the facility's operations. In this regard, the Fund and the World Bank can play an important role in facilitating the link between the eligible countries and donors and aid agencies. We also attach importance to the successful completion of the initiative to increase the facility's resources.

With regard to the low level of utilization of existing resources and the staff's proposal on second-year access, we support the proposals to raise second-year disbursements under the facility to 30 percent of quota. In sum, the deep economic and financial difficulties of the poorest countries require a timely and appropriate response by the international community. Any effort to facilitate the allocation of structural adjustment facility resources, as well as to enlarge the facility, is a welcome step in the right direction and we fully support it.

Mr. Dai made the following statement:

I welcome this review of the experience with the structural adjustment facility, which was established on March 26, 1986 as a concessional facility, and which focuses on the structural aspects of the economy with a view to achieving not only balance of payments viability, but also sustainable growth.

Although it may still be too early to fully assess the facility--it has been in existence only a short time and only 12 eligible member countries have so far made use of its resources--we fully support the Managing Director's initiative to enlarge significantly the resources of the facility. Certainly, all of us welcomed the Managing Director's proposal and saw this as a concrete contribution to resolving the difficulties of the poorest debtor members. The present review, therefore, may be an appropriate occasion to improve and enhance the facility's role and make it more effective and attractive.

The analysis and suggestions in the staff paper, derived from a year's experience, are practical and warrant our consideration. More important, though, are the experience and views of the user countries, which I believe should be brought to our special attention.

During our discussion on the establishment of the structural adjustment facility, this chair expressed serious reservations concerning the policy framework paper procedures. We felt that they would make the whole operation unduly burdensome and would consequently endanger the facility's efficiency. Unfortunately, to a certain extent, this has been the case. This experience has served to strengthen my support of Mr. Nimatallah's view that the policy framework paper is only a rough planning document for identifying user members' objectives and policies of structural adjustment within a three-year period, and for attracting additional resources from bilateral and multilateral donors.

It seems reasonable that the papers and the papers on structural adjustment arrangements should be brought to the Board simultaneously, except for members in arrears to the Fund. For those members, the policy framework paper could be negotiated separately and ahead of the paper on the arrangement. I also support the proposal that only the paper on the structural adjustment arrangement should be brought to the Board for discussion, with the policy framework paper serving as a background paper. The authorities should be fully involved in the preparation of the policy framework paper, which should take into consideration each nation's policy priorities. To that end, the structure of the paper should be flexible and adaptable to the specific circumstances of each country.

I agree with Mrs. Ploix on the need to reduce the excessive burden placed on both the staff and the local authorities in negotiating policy framework papers and structural adjustment arrangements. Since the first year's experience with the papers has not been as successful as some had envisaged, especially in attracting additional resources, any overemphasis or overestimate at this stage regarding the central role they play is unrealistic and unconvincing at best. Furthermore, in my view, if policy framework papers fail to attract concessional financing from potential donors after a certain period, the Board should consider whether to continue the present policy framework practice.

I agree with Mr. El Kogali that the conditionality attached to the use of the facility's resources has been somewhat excessive. Members utilizing those resources are expected to implement structural adjustment programs that will address their severe balance of payments difficulties with strong and timely measures; however, that does not necessarily mean that upper credit tranche conditionality has to accompany the use of the resources, which are concessional in character. Therefore, I agree that benchmarks should focus on a few growth-related variables, and that the second- and third-year disbursements should not be based on performance under the previous year's benchmarks.

In principle, the requirement of prior actions is not in general accordance with concessional financing, but in the present circumstances I can go along with the staff view that "prior actions have to be envisaged only if necessary for the annual program to be credible and workable." In addition, I would urge greater flexibility with respect to the application of conditionality under the facility.

A number of countries eligible to use the facility have not yet requested structural adjustment arrangements. The reasons may vary: a member country may be in arrears to the Fund, or it may not find the facility attractive, or perhaps its protracted balance of payments needs are not obvious. Even after three years, there might still be some eligible members that, for one reason or another, prefer not to make use of the resources. Nevertheless, these member countries should remain eligible to use concessional financing flows, regardless of whether they have declared their intentions to the Fund before the end of the third year.

I feel strongly that the structural adjustment facility has diverged too far from the original purpose of the Trust Fund, namely, to provide relief on a concessional basis to low-income countries with acute and persistent balance of payments difficulties, but no easy access to other sources of external financing. In fact, the facility has become complicated and restrictive, and I am concerned that some of its procedures may become a precedent for other concessional financing flows. In my view, after three years, or at least after the present debt crisis, Trust Fund reflows should no longer be diverted to such a facility. The Fund, as an intergovernmental, cooperative institution, should and must maintain the concessional nature of its financing for the poorer member countries.

Mr. Mawakani made the following statement:

I would like to express to the Managing Director the appreciation of my authorities for his efforts to enhance the resources available to the structural adjustment facility. They are pleased to note that not only have these efforts had strong support at the Venice summit, but also they have set in motion a process that will lead to substantial additional resources being made available over the three-year period starting as early as January 1988. My authorities' appreciation for these efforts stems from their concern that the additional resources contemplated during the establishment of the facility have been slow to materialize.

It is worth recalling that initially, in view of the limited amount of the resources accruing to the Special Disbursement Account, concerned countries in my constituency expressed their

preference to use these resources under a Trust Fund-like facility. They reluctantly agreed to the establishment of the structural adjustment facility in its present form because, as the discussions evolved, assurances were given concerning the prospects for additional resources to supplement the facility's resources to provide meaningful support to the adjustment efforts of eligible countries. After 15 months of operation, the expected additional resources have yet to materialize. And until the Venice Economic Declaration was released and the Managing Director announced the good news to the Board about the enhancement of structural adjustment facility resources, my statement on the interim review of operations of the facility would have focused on this important subject. Nevertheless, I still have some general comments to make on the development of policy framework papers, the speed of use of structural adjustment facility resources, and Fund-Bank collaboration and cross-conditionality.

The Chairman's summing up of March 26, 1986 of the discussions on the facility states that "the framework paper is to be developed in close collaboration with the authorities--who after all are responsible for policy formulation--and the staffs of the Fund and the World Bank, who will work closely on these matters, including through joint missions." However, the staff paper for this review states that "in all cases to date, draft policy framework papers have been agreed between the two institutions and, on the basis of those drafts, negotiations have been conducted by missions in which staff from both institutions were present with authority to agree (ad referendum) to modifications." The practice of agreeing on drafts at headquarters has led to situations where the authorities' input in the process of formulating policy framework papers has been insignificant and very often the staff is reluctant to introduce the modifications formulated by the authorities. Such a practice is contrary to my authorities' understanding of the policy framework paper, which is to be developed by them and, as such, staff involvement in the process should be to provide primarily technical advice on macroeconomic and structural issues in order to ensure consistency and better perspective for the authorities' approach to their problems.

To date, only 14 of the 62 eligible countries have made use of the resources of the structural adjustment facility. It is regrettable that use of the facility could not be expedited as expected when the Board established the facility. As an explanation for this slow pace of utilization of the facility, the staff states that "the most important factor affecting the use has been the requirement to formulate comprehensive structural reform programs." While we recognize that the need to break new ground in establishing the operations of the facility and to give substantive meaning to the concept of the policy framework paper has contributed to slow down the speed of use of structural adjustment facility resources, we are of the view that the papers have tended

to be overly ambitious. This is implicitly recognized by the staff when it states that "a question arises as to whether policy framework papers should be expected in all cases to be fully articulated statements of structural adjustment from the outset." It should be noted that the recourse to prior actions has also created delays in the use of the facility's resources. In view of this, I agree with the staff that a staged approach should be applied in some cases in order to avoid undue delays.

During the various discussions that led to the creation of the structural adjustment facility, several Directors observed that the increased collaboration between the Fund and the Bank should not lead to cross-conditionality, with one institution making its financial assistance conditional on reaching agreement with the other institution. Actually, some countries in my constituency have experienced such cross-conditionality. Let me mention a few examples. In one case, disbursement under a Structural Adjustment Credit approved by the World Bank Executive Board was withheld and made conditional upon the Fund staff reaching agreement, ad referendum, on a program for the first year under the structural adjustment facility. In another case, Fund assistance in the context of a stand-by arrangement was made contingent on the completion of the negotiations for the policy framework paper and the structural adjustment arrangement programs. In this case, the authorities had no intention of using the facility's resources at that time. It appears clearly that the staff has gone beyond the legitimate goal of meeting the "shared concerns by the two institutions" or the concerns of one institution over its various forms of financial assistance.

It should be mentioned that despite the intended goal of such collaboration, divergences in objectives, working hypotheses, and timing for implementation of measures have surfaced at different levels in documents of the two institutions. For one country in my constituency, the working hypothesis and projections in the policy framework paper and in the Bank's document for a structural adjustment program differed to some extent. In this case, Fund staff gave precedence to the figures in the policy framework paper-- figures that were supposed to be indicative. This created long delays in the negotiations, some confusion, and prompted the authorities to wonder which one of the documents should bind them. In this instance, the necessary flexibility was not exercised and the policy framework paper was not used as a reference document. In our view, in no circumstance should the policy framework paper, which is to be updated annually and above all is not a legal document, be given precedence over documents pertaining to specific lending operations.

We are well aware that when a process that is new and evolving, such unfortunate occurrences are inescapable. What matters is to take stock of these occurrences, find ways to correct them,

and move toward improvement of the operations of the facility. In this connection, I hope that the examples I have just brought to the Board's attention will be useful in helping us improve the structural adjustment facility process.

As for some specific issues raised in the staff paper, my authorities consider the policy framework paper to be a general document presenting the macroeconomic and structural problems facing their countries, setting the priorities and the policies they intend to implement over the medium term to address these problems, and evaluating the financial requirements over a three-year program period. Specific and detailed policy commitments are to be made in subsequent documents on structural adjustment arrangement programs and the Bank's lending programs. The policy framework paper process serves also to reduce to a minimum inconsistencies in policy recommendations given by the two institutions. My authorities, therefore, do not see the policy framework paper as a document in which detailed policy commitments and precise timing of policy implementation should be made. If the policy framework paper, which has potential for wide circulation, can elicit financial support, on a bilateral basis, from donors and multilateral institutions, its format should be altered and made suitable for circulation to them. On this, I agree with the staff that more emphasis would have to be given to analyzing a country's problems with less emphasis on detailed policy commitments. We can go along with most of the suggestions made by the staff on the circulation of policy framework papers and the procedures for such circulation.

As to the question whether there will be a role for the Fund in the policy framework paper process independent of use of Special Disbursement Account resources, my authorities do not hold a firm view on this issue. However, it is fair to say that if resources on terms and conditions similar to those of the structural adjustment facility are available beyond the Trust Fund reflows period, a continuation of the policy framework paper process would be in order. However, we have some difficulties with the suggestion that all revisions to policy framework papers should provide a continuous three-year horizon. Not only will this add further burdens on the authorities and the staff, but it will also be unfair since structural adjustment facility resources are committed only for a three-year period. If commitment of resources can be made beyond the three-year period, then the concept of a rolling three-year framework can be favorably considered.

In view of the need to avoid delays and excessive burdens on the Board and on the staff, the policy framework papers and structural adjustment arrangement programs should be presented simultaneously to the Board. If delays occur in the negotiations of the programs, the policy framework paper can be circulated to Executive Directors well in advance, but its consideration by the

Board should take place together with the structural adjustment arrangement programs. Thus, the policy framework paper should be clearly distinct from the document on the structural adjustment arrangements. Whenever feasible it would be preferable to adopt a one-step process for the negotiations with authorities on the policy framework paper and the arrangements under the facility in order to reduce the administrative costs involved in protracted negotiations.

The need for flexibility in determining the protracted balance of payments problems of countries cannot be overemphasized. We encourage the staff to further exercise flexibility so that all eligible countries can benefit from the facility. We, therefore, oppose any restrictive application of this criterion.

On access, we support the staff proposal to increase second-year access to 30 percent of quota. We hope that in the context of the general review of the facility proposed for mid-1988, third-year access could be set, at least, at 13.5 percent of quota as contemplated when the facility was established.

On conditionality and program design, it must be recognized that although flexibility was to be one of the main features of the facility, the nature and form of conditionality on the cases brought to the Board so far have been similar to upper credit tranche conditionality. Sight should not be lost of the fact that programs under structural adjustment arrangement are to address structural problems, are aimed primarily at achieving economic growth and that these objectives require more time for their attainment. Structural adjustment facility conditionality needs, therefore, to be adapted to the peculiarities of programs under the facility. In this context, the staged approach proposed by the staff for the development of policy framework papers could be extended to the implementation of conditionality. Also, prior actions should not be resorted to, except in exceptional circumstances, and they should not be allowed to delay use of the facility's resources.

As to the number and nature of benchmarks, we endorse the staff view that benchmarks should be limited to a few variables of paramount importance to help monitor programs. It should be stressed that emphasis should be placed on qualitative benchmarks rather than quantitative benchmarks. What matters is to ensure that the qualitative benchmarks that are likely to be based on commitment to implement specific actions at specific dates are observed. There is a risk that increased recourse to quantitative benchmarks will equate structural adjustment with stand-by arrangements.

It is fair to say that after 15 months of operation, the structural adjustment arrangement process does not appear to be going in the direction that was intended. For some countries in

my constituency, the experience so far has not been encouraging as the negotiations have been protracted and complicated. However, it should be stressed that the process did open new hopes for many low-income countries in their fight against poverty. Now that the prospects for substantial additional resources are much better, the facility should be in a position to meet these hopes, provided that the procedures are made simple, access larger, disbursements quicker, and its conditionality adapted to the particular circumstances of eligible countries.

Extending his remarks, Mr. Mawakani observed that most Directors had been critical of the lack of sufficient involvement of the authorities of eligible countries in developing the policy framework paper and had urged them to correct this practice. Indeed, the policy framework paper was a basic document of the authorities, and it should originate from them. The role of the staff of the Fund and the Bank should be primarily to provide technical advice on macroeconomic and structural measures that the authorities intended to pursue in achieving their national goals. In his view, the involvement of the authorities in the analysis of the macroeconomic problems and in the formulation of the priorities and the policies to be implemented would enhance their commitment to those policies.

Fund-Bank collaboration was a major cause for concern, Mr. Mawakani continued. The staff had suggested that the Fund should move forward with a policy framework paper if the World Bank was not interested in a lending arrangement, whereas Mr. Dallara had proposed that both institutions should move in tandem. Did Mr. Dallara intend that the Fund should not provide financial assistance to members without the Bank's technical or financial contribution? If so, his own chair was opposed to the proposal. In fact, his chair favored Fund-Bank collaboration only if it did not lead to cross-conditionality. A number of countries in his constituency had experienced cross-conditionality when both the Fund and the Bank had to move in tandem.

He supported Mrs. Ploix's view that a structural adjustment arrangement should not be a substitute for a stand-by arrangement; such substitution would further reduce the Fund's involvement in the poorest countries, Mr. Mawakani remarked. Like Mrs. Ploix, he would be interested to hear the staff's comments on the criteria used to determine whether there should be a stand-by arrangement alone, a stand-by arrangement with a structural adjustment arrangement, or a structural adjustment arrangement alone. His authorities did not see any reason to make approval of a stand-by arrangement contingent on the conclusion of the structural adjustment arrangement. Indeed, it would be helpful if a clear distinction was made between the two forms of assistance, taking into consideration member countries' preferences.

While Mr. Dallara supported an increase in second-year disbursements to 30 percent of quota, he had suggested the possibility of reducing access for member countries that had not undertaken negotiations for a structural

adjustment arrangement in order to increase the access of those having such arrangements, Mr. Mawakani noted. Such a reduction would penalize latecomers. Moreover, some countries had delayed requests because of protracted discussions and the requirement of prior actions. Eligible countries in his constituency had initiated discussions on the use of Fund resources as early as 1985, but even after the creation of the structural adjustment facility those discussions had not been completed.

Concerning the presentation of the policy framework paper and a paper on a request for a structural adjustment arrangement to the Board, the two-stage approach evidently created delays and placed a heavy burden on the Board and the staff, Mr. Mawakani observed. Both documents should be presented simultaneously to limit work load pressures on the staff.

It should be stressed that since prospects for a substantial addition to the structural adjustment facility's resources were much improved, the facility should be amended to take account of the concerns that he had expressed, so that the facility might meet the hopes of low-income developing countries, Mr. Mawakani concluded.

Mr. Sengupta made the following statement:

In the staff paper, the role of the authorities of recipient countries in the policy framework/structural adjustment arrangement process is not emphasized. Instead, the question raised is whether there should be a two-stage approach, with discussions on macroeconomic policies at the outset, followed by the provision of detailed targets later, or a single presentation of the policy framework paper and the request to the Board for a structural adjustment arrangement. In either case, the Fund and the Bank staff were indicated as playing the predominant role in the policy framework/structural adjustment arrangement process, not the authorities. It must be emphasized that the member countries rather than the international bureaucracy, should play the central and pivotal role. As emphasized in our interventions in the Interim and Development Committees, since the governments of the recipient countries have the responsibility for implementing policies; it is beyond the mandate of the Fund and the Bank to force any ideology on them.

While recognizing the need to keep the policy framework paper and the request for an arrangement separate so as to facilitate the dialogue between the Fund and the Bank, it is important that the policy framework paper not be allowed to have a role independent of the request for the use of the facility's resources. The preparation of policy framework papers should not be considered without there being a direct link to financial resources; otherwise, the process can lead to an unacceptable erosion of sovereign decision making. In any event, structural adjustment arrangements and IDA lending must not be linked. The facility must not be used to introduce conditionality in to IDA credits in addition to the recent tightening of terms and conditions.

As regards the separate negotiation of policy framework papers and structural adjustment arrangements, such an approach would introduce one more roadblock in the approval of such arrangements. A time frame should be established for the completion of negotiations once a request for an arrangement has been made. The Board should direct the staff that while the eligibility criterion for use of the facility should be a protracted balance of payments problem, policy framework papers and structural adjustment arrangement negotiations should not be protracted.

At the end of the discussion on the establishment of the facility in March 1986, the Managing Director pointed out that "flexibility has been mentioned throughout the discussion. I think it is fair to say that all Directors stressed that the procedures that will be utilized relating to policy framework papers and the annual programs should be applied flexibly in order to avoid undue delay. There was strong emphasis on the need to make the resources available quickly and also to avoid excessive burdens on the Board, and on the staff, and on the authorities." The year's experience with the facility shows that flexibility was the first casualty of the procedures that were evolved. The manner in which loans were concluded has been disappointing. No doubt, initial delays were inevitable, as they are at the start of any new operation. But the delays in preparing policy framework papers as well as in putting structural adjustment arrangements in place also resulted from the insistence on Fund-Bank collaboration and on the calls for far more detailed information than was required or even originally envisaged. In this connection, I recall that the Board had agreed reluctantly to the idea of preparing policy framework papers as the Managing Director's summing up noted, after reaching an understanding that the papers would not be specific but would give a general treatment of the country's problems, the objectives of a three-year program, the broad thrust of macro-economic and structural adjustment policies, the external financing requirements, and, possibly, the available sources of financing. The scope and content of policy framework papers in reality has been far more comprehensive. The procedures for negotiation and Board discussion of the policy framework paper and the request for a structural adjustment arrangement should be kept as flexible as possible. We support the staff suggestion for flexibility in the timing of Board presentations of structural adjustment arrangements as well as for flexibility in the interval between annual disbursements.

We do not support the idea of a rolling three-year policy framework paper. While information may be updated annually, a revision of the policy framework paper beyond the three-year period for which the structural adjustment arrangement is approved would not be desirable.

The protracted balance of payments criterion should be applied on the basis of the direction of the countries' development program rather than mechanistically on the basis of statistical indicators. Any restrictive application of this criterion should be avoided.

The conditionality currently associated with use of the facility is not commensurate with the amount of available resources. As programs will have both stabilization and structural components, structural objectives can be achieved only if there is an appropriate blend of adjustment and external financing. The lack of external resources will quickly lead to a weakening of the political will to carry out the envisaged reforms.

Furthermore, the insistence on Fund-Bank collaboration has led to a widespread belief that there is "double" conditionality, namely, that a number of conditions attached to the policy framework/structural adjustment arrangement process are either incorporated from or carried into Bank adjustment lending. There is also a concern that Fund-Bank collaboration is leading to situations in which cross-conditionality is inherent, although not always transparent. The growing elements of cross-conditionality have reduced the attractiveness of the structural adjustment facility.

The number and scope of the benchmarks in structural adjustment arrangements approved so far are very large and, therefore, are likely to be difficult to monitor properly. Benchmarks should be limited to a few variables which are considered most important for the purpose of monitoring the program. We would not support the extension of monitoring of selected benchmarks beyond the annual program.

The staff paper also deals with structural adjustment arrangements as a complement to stand-by arrangements. I thought that the obvious substitute--in the context of medium-term structural adjustment--is an extended arrangement. It is, of course, necessary to underline that supplemental support under a stand-by or extended arrangement for eligible countries should not increase their debt service burden substantially. The recent Report of the Group of Twenty-Four clearly emphasizes that adjustment should be growth oriented, and that the debt service burden of low-income countries should not be allowed to rise. In a section dealing with the structural adjustment facility, the Report states that the overall size of the facility should be substantially "increased in a manner that ensures genuine additionality in concessional flows to low-income countries." It then added that "the overall objective should be to ensure that the bulk of financing from the Fund for the low-income countries is on concessional terms." The Report suggests that "even with sizable enlargement, the structural adjustment facility would remain a highly restricted

facility leading to cross-conditionality with the World Bank, unless additional changes were introduced in the conditions governing its use." "For the structural adjustment facility-eligible countries," the Report says, "increased use should be made of the Fund's general resources, particularly the extended Fund facility, on concessional and low-conditionality terms." In this connection, it urges the creation of an interest subsidy facility to reduce the burden of charges on the use of Fund resources to a level equal to that on structural adjustment facility resources. Moreover, "the financing of this interest rate subsidy should be additional to normal concessional flows to these countries."

I welcome the Managing Director's initiative to find additional concessional resources for countries eligible to use the structural adjustment facility. India has always supported efforts to help low-income developing countries. Although India is eligible to use the facility, during the discussion in 1985 on the use of Trust Fund reflows to constitute the structural adjustment facility India offered to forgo the use of these reflows, not because it had no need for them or because it was any less affected by the problems of poverty or acute difficulties of international payments situation. At that time, the Managing Director characterized this decision as a "gesture of international solidarity" in favor of other low-income countries that would have been left with a much smaller share of the rather small amount of available Trust Fund reflows--amounting to SDR 2.7 billion--if India had claimed its legitimate share. India's requirement of concessional finance has increased in the 1980s; as the 1986 World Development Report shows, there has been a steep decline in such assistance to India. It received about \$2 per capita in net ODA assistance and its debt profile has been deteriorating.

At the time, it was clearly recognized by the Managing Director and the Board that the facility's resources should be additional to the normal flows of concessional finance. That has also been the position of the Group of Twenty-Four. I hope that the Managing Director will be able to ensure this "genuine additionality"--as the G-24 Report puts it--in his latest initiative.

Mr. Yamazaki made the following statement:

The structural adjustment facility has a number of new features of particular importance to the Fund at a time when the need for growth-oriented adjustment and close collaboration with the World Bank has been strongly emphasized. The review of the facility will undoubtedly be useful in this light. At the same time, the experience with the facility has given rise to various operational issues that need to be sorted out as early as possible to ensure its efficient operation.

The recent initiative to enhance the facility's resources, as mentioned in the Venice summit declaration, has added a new perspective to the facility's framework and might lead to a fundamental review of the facility before the general review scheduled for early 1988. Nonetheless, it would not be appropriate to postpone the present review, on account of the anticipated additional financing, whose modalities remain to be worked out. My comments, however, do not assume the provision of significant additional financing but rather concentrate on how we can make the best use of the resources currently available.

The structural adjustment facility is designed to assist low-income developing countries in their efforts to tackle deep-rooted structural problems and to promote economic growth. The conditionality attached to use of the facility's resources stems from this original purpose, and, therefore, the policy framework/structural adjustment arrangement process constitutes an indispensable and integral part of the facility. The need to develop an economic program that deals with structural problems suggested the need for close collaboration between the Fund and the Bank, which led to a formal institutional arrangement between the two organizations.

New ground had to be broken in incorporating these features into the Fund's operations. The difficulties and frustrations that have emerged in the process of implementation were not totally unexpected and are perhaps inherent in any new undertaking. Moreover, in considering the cost effectiveness of the facility's operation, focusing on the facility alone may not be justified because considerable externalities may be involved; in a sense, the experience and lessons learned from the facility may be relevant to other operations of the Fund. This is particularly so at a time when Fund programs increasingly emphasize growth and structural aspects as well as closer collaboration with the Bank.

Nevertheless, it is clear that the policy framework/structural adjustment arrangement process requires further streamlining and rationalization, and I broadly endorse the staff proposals, which aim at enhancing efficiency while pursuing the original purpose of promoting structural reform within the framework of a growth-oriented strategy.

More specifically, I endorse the staff proposal to increase the amount of second-year disbursements to 30 percent of quota. On the eligibility requirement of protracted balance of payments difficulties, this chair favors a flexible approach and has no difficulty in broadening the cases to which this criterion applies.

As regards preparation of the policy framework paper, it would be more desirable to rely on the authorities' initiatives and to have more input from donor countries. But to do so could

entail prolonging the process and could require additional staff resources. Given the constraints on available resources, the procedure that has evolved may have been inevitable, and I am prepared to go along with it. In cases in which it is difficult to obtain input from the Bank staff, the Fund staff may turn to regional development banks or to major donors for the requisite information. I do not see strong reasons to favor a one-step negotiation process over the present practice.

On the content of the policy framework paper, I support the proposal made by the staff to streamline the paper, leaving detailed policy commitments largely to the structural adjustment arrangement and program. While the effect of this separate treatment is not certain at this stage, wider distribution of the policy framework paper may help bilateral aid agencies to work out the modalities for more effective association of their financing with structural adjustment facility financing. A rolling policy framework paper is a sensible idea, if its preparation does not add too much to the burden of the staff.

Closer cooperation between the Fund and the Bank has given rise to concerns about cross-conditionality. Cross-conditionality needs to be clearly distinguished from economic linkages, and I am pleased to note that no instances of cross-conditionality have been identified.

On the design of structural adjustment arrangements, I can basically associate myself with the staff's views.

On the mobilization of resources, I would like to underscore the importance my authorities attach to fair burden sharing, which, in their view, should be based on the relative economic strength of potential contributors. With regard to the association of bilateral aid resources with the policy framework paper/ structural adjustment arrangement process, coordination between aid agencies and the Fund has to take into account the institutional setting of each agency, and the Fund should attempt, to the extent possible, to accommodate the preference of each agency in designing the particular modalities of coordination. Closer contact between aid agencies and the Fund will be welcomed, but we do not support creating new formal arrangements to discuss policy framework papers, to mobilize aid resources, or to coordinate the operations of aid agencies.

Mrs. Ploix remarked that the preparation of policy framework papers by the staff in Washington and their clearance by the managements of the Fund and the Bank prior to the staff mission allowed little room for maneuver in the field. She wondered whether it would be possible to send out missions with only broad guidelines cleared by the Fund and the Bank so that the details of the policy framework paper could be worked out with the authorities in the field.

The Chairman noted that the question raised by Mrs. Ploix was a difficult one. To enable the staff to embark on negotiations on structural adjustment arrangements without delay it was necessary to prepare policy framework papers well in advance; but as a result of that procedure, missions in the field might not have the flexibility needed in negotiations with the authorities. A balance had to be found between those conflicting needs.

Mr. Posthumus, recognizing the concerns expressed by Mr. Mawakani and Mr. Sengupta on cross-conditionality. Directors must be more precise about what constituted cross-conditionality. Mr. Mawakani seemed to imply that cooperation between the Bank and the Fund under the facility entailed cross-conditionality. In fact, from the beginning, the structural adjustment facility was envisaged as a joint Fund-Bank operation; such Fund-Bank cooperation was important and was entirely different from cross-conditionality.

Mr. Lankester remarked that, in the light of comments by Executive Directors, he wished to address further two issues that he had raised at EBM/87/91 (6/18/87). The first concerned the role of the policy framework paper, which was perhaps the most difficult issue before the Board. On the one hand, many Directors wanted the policy framework paper to be more pointed and critical in its analysis of a country's problems and prospects; to set out more explicitly and precisely what needed to be done and what the priorities should be in addressing the various structural issues; and to provide a framework not only for programs under structural adjustment arrangements but also for IDA or bilateral aid programs. It was also desirable that countries as well as the World Bank should be more involved in the preparation of policy framework papers. On the other hand, some Directors were concerned about problems of confidentiality, which might arise if the conclusions resulting from franker discussions and more information on policy commitments were included in policy framework papers, especially in view of the proposal for wider circulation of those papers.

A second problem was that the Bank had not yet become convinced that policy framework papers were useful for its purposes, Mr. Lankester continued. The Bank staff seemed to regard the policy framework papers as being too general, especially its macroeconomic framework. Some Bank staff considered that the Bank's own economic reports should be the focal point for IDA adjustment lending and perhaps also for bilateral donor assistance, since the Bank's economic reports had been featured at aid group meetings. Bilateral donors also had not found the policy framework paper too useful thus far. Moreover, the countries utilizing the facility's resources had not been enthusiastic about the policy framework paper. The preparation of the papers also had involved a great deal of staff time and effort. The policy framework paper process had thus become frustrating, and some felt that the process had become a paper chase, especially since the benefits of the process were not yet evident.

It was too early to give up on the policy framework process, Mr. Lankester considered. Despite the problems, efforts had to be made to improve the process. His key suggestion in that respect was that the

policy framework paper should be franker and sharper in its assessment of countries' problems and policy priorities. It should also indicate the authorities' policy commitments, if the policy framework paper was to provide a framework for the donor community as a whole.

The staff had suggested that for reasons of confidentiality, new policy commitments should generally be confined to the letter of intent and should not be included in the policy framework paper, Mr. Lankester observed. He was not sure that a great deal in terms of confidentiality would be gained from that procedure; his authorities viewed the letter of intent in the same light as the policy framework paper. The suggestion that the policy framework paper should be circulated to some other multi-lateral institutions might need to be reconsidered. He favored including the policy commitments in the policy framework paper to make it useful on a broader scale. For instance, if there was concern about policy commitments being given circulation in advance of the issuance of the paper on the request for a structural adjustment arrangement, he would favor circulating the policy framework paper and the paper on the arrangement simultaneously.

To convince the Bank that policy framework papers were valuable, perhaps high-level consultation between the two managements was needed, Mr. Lankester commented. While the Fund expected input on structural adjustment from the Bank, the Bank might be keener to participate if it got more out of the exercise in terms of macroeconomic analysis from the Fund.

He accepted the view expressed by a number of speakers that donor involvement in the preparation of policy framework papers would be difficult and could create further delays, Mr. Lankester remarked. However, donors' views needed to be taken into account in the revision of policy framework papers, and more thought needed to be given to how the papers could be made more useful to bilateral donors. The idea of including an analysis of the country's public investment program, as suggested by Mr. Massé, was worth pursuing. In any event, the policy framework paper process should be reviewed again seriously in a year's time, when there had been more experience with the facility.

The staff and several Directors had suggested that there should be some flexibility in the timing of disbursements, Mr. Lankester noted. He favored a 12-month disbursement period starting from the date of the approval of the structural adjustment arrangement--the same procedure followed for stand-by arrangements. Retroactive financing would involve subjective judgments on whether a program had actually begun, and was likely to lead to inequities between the facility's users. Moreover, if retroactive financing was possible for a structural adjustment arrangement, why not allow retroactive financing for a stand-by arrangement? He did not accept the argument that disbursements necessarily had to coincide with a country's fiscal year. If the timing of disbursements posed a problem for a particular country, he might be willing to approve prorating the first disbursement so that, for example, if a country's program was

approved at the end of January, and its fiscal year began in July, the first disbursement would be made immediately, but would amount to only five twelfths of the normal first-year drawing; the second disbursement would then be made on July 1. Such flexibility was acceptable to him.

Mr. Massé remarked that following a debriefing on a structural adjustment arrangement the previous day on negotiations with Dominica, he had some further conclusions to offer regarding the policy framework/structural adjustment arrangement process. First, the guidelines set out by the Board should allow sufficient flexibility for the staff to interpret each particular situation. For example, in Dominica, benchmarks had presented a problem, particularly quarterly benchmarks. He had concluded that, for some countries, benchmarks in all areas of general policy would not be appropriate, and not all benchmarks had to be quarterly; of course, for other countries a different conclusion might be reached.

Some countries were reluctant to plan far ahead because such planning reduced their margin of maneuver, and it could be difficult to obtain policy commitments for a three-year rolling policy framework paper, Mr. Massé observed. In that event, two courses of action were possible: the policy framework paper could be defined in a flexible way, so as to include forecasts based on the authorities' general strategy; however, if important policy commitments needed to be taken, they should be included in the letter of intent. Overall experience with the policy framework/structural adjustment arrangement process suggested that the Board should leave more flexibility to the staff to adapt to specific situations.

He agreed with Mr. Lankester that in its operations the World Bank did not give enough importance to the policy framework paper, which could be an extremely useful planning instrument, Mr. Massé continued. Unless the World Bank not only participated in the policy framework process but also felt as committed to its conclusions as the Fund, the cooperation envisaged under the facility would not be achieved. Moreover, the policy framework paper's use as a general guide for investment would not then be realized, because in many of the eligible countries, the World Bank was one of the most important investors. Thus, much work remained to be done to develop the policy framework paper as an efficient planning instrument for use by both the Fund and the World Bank.

Mr. Mawakani, responding to a comment by Mr. Posthumus, noted that he had recounted two cases of cross-conditionality between the Fund and the Bank in his statement. He would be pleased to discuss that matter further on a bilateral basis.

Mr. Dallara remarked that he wished to associate himself with a number of points made by Mr. Lankester concerning policy framework papers. He was broadly satisfied with the direction and content of policy framework papers, but greater specificity was needed, particularly with regard to first-year programs. He agreed fully with those who had mentioned the

need to find a way to increase the Bank's involvement in the policy framework process; in that regard, the suggestions he had made at EBM/87/91 on procedural changes to bring the Bank into the process at an earlier stage might be helpful.

Perhaps the Bank did not feel that it had a vested interest in the policy framework paper because it was not as fully engaged in its formulation and in the planning and leadership of staff missions that negotiated the papers, Mr. Dallara commented. The missions so far had been predominantly staffed by the Fund, often because their scheduling was somewhat more geared to considerations of availability of Fund staff schedules. While he recognized the necessity to move ahead promptly on requests to use the resources of the structural adjustment facility, and the Bank should not--through a lack of interest or immediate concern--delay the process, the Bank's interest, involvement, and financing in support of programs under structural adjustment arrangements would be greater if it played a greater role in the policy framework paper process. In his view, the objectives of the facility were not going to be achieved if the Fund was not willing to relinquish some control over the policy framework paper process; it was especially essential that in the long run, the Bank should play a greater role in providing necessary financing.

He had not meant to suggest in his earlier statement that if the World Bank did not intend to provide financing to an eligible country, the Fund should refuse to develop a policy framework paper and provide structural adjustment facility lending to that country, Mr. Dallara continued. He had intended instead to stress the need for Bank involvement at all stages in the policy framework paper/structural adjustment arrangement process. Indeed, if the Bank was not involved, it seemed unlikely that the growth-oriented programs needed in many countries would be developed. The competence of the Fund staff to assess investment programs, for example, was not as developed as that of Bank staff, and the Fund should continue to look to the Bank for such expertise. Like Mr. Mawakani, he believed that the aim should be to enhance flows to countries which performed well under the policy framework paper/structural adjustment process. His suggestion to reduce access to countries that have not yet initiated structural adjustment arrangements was not intended to penalize them, but to maximize the flows to countries with programs under structural adjustment arrangements.

He was somewhat puzzled by the comments of Mr. Mawakani and Mr. Sengupta regarding cross-conditionality, Mr. Dallara remarked. Greater Fund-Bank collaboration had sometimes resulted in increased financial flows to countries subject to the same, rather than increased conditionality. Conditionality was the product of the design of a complex jigsaw puzzle, and that design was more effective if all parties simultaneously decided on the shape of the pieces and their fit. In the absence of collaboration, two separate designs might be devised that would put a greater burden on the country and, in the end, not accomplish the member's objectives.

He supported the Managing Director's initiative to enhance the facility's resources, Mr. Dallara added. That initiative was timely not only because of the need to augment concessional flows to eligible countries, but also because a number of Fund members were in relatively strong payments and/or budgetary positions to contribute to the enhanced facility. The broad direction of the modalities under consideration was in the right direction. It was important to place the initiative in proper perspective: the enhanced facility should not replace bilateral or other multilateral assistance, nor should the Fund become the principal source of financing for eligible countries. The World Bank was substantially replenishing IDA resources, and when that replenishment came on stream it would enable the Bank to continue to play its critical leadership role in this area. Moreover, the combination of an enhanced facility and a replenished IDA should be able to catalyze additional bilateral assistance for low-income developing countries.

The suggestions regarding access under an augmented facility were also in the right direction, Mr. Dallara remarked. Although specific decisions on access could not be taken at present, the Board would have to develop guidelines for access under the enhanced facility with some flexibility. He looked forward to reports on the outcome of forthcoming consultations with members on enlarging the facility's resources.

Mr. Sengupta commented that a few points raised by Mr. Lankester, Mr. Posthumus, and Mr. Dallara should be examined from the perspective of potential recipients of structural adjustment facility resources.

He preferred that management decide the timing of disbursements, especially when a structural adjustment program was a complement to an existing Fund-supported program and an early release of resources would add to the total financing available to help facilitate the implementation of the program, Mr. Sengupta remarked. A decision by management that such flexibility was appropriate should not be hampered by some rigid modality regarding the timing of disbursements.

On the policy framework paper process and Fund-Bank cooperation, each institution should be informed of the other's concerns about and actual involvement in a particular country's economic program and should be guided accordingly in the formulation of the structural adjustment facility program, Mr. Sengupta continued. While that did not constitute cross-conditionality, cross-conditionality did arise when the fulfillment of the conditionality of one institution's program became a condition for the release of the resources by the other institution. Mr. Mwakani had cited two examples where the release of one creditor's funds had depended on meeting the conditions of the other creditor, thereby placing the recipient debtor country at a disadvantage. In another instance, a Fund-supported program was held up for several months because certain performance criteria under a Bank program could not be effectively fulfilled. Such cross-conditionality should be avoided, and he was particularly concerned that several instances of cross-conditionality had arisen.

As for agreement by the Fund and the Bank on the policy framework paper, it was to be expected that differences of view would arise, and, for that reason, Directors had agreed when the facility was established that the policy framework paper should give the broad thrust of policies, Mr. Sengupta recalled. Mr. Dallara had apparently suggested that when such differences emerged, the Fund should give in. He disagreed; if the Fund considered that a policy was important for the success of a Fund program, it should press for the inclusion of that policy in the policy framework paper. The major problem was that the policy framework paper contained too much detail. The Fund should be informed of the Bank's concerns and of donors' concerns when negotiating the policy framework paper, but the Fund should prepare the paper. Involving another institution, or a donor with different concerns, and attempting to detail policies would make it difficult to negotiate the policy framework paper. In any event, the country concerned should be more involved in the policy framework paper process.

Mr. Hassan remarked that the view of most of the countries in his constituency--many of which were users of the facility--was that the authorities' views should be explored and that development and policy priorities should be discussed with them before policy framework papers were drafted to ensure their commitment to the policy framework.

As for including policy commitments in policy framework papers, he agreed with Mr. Massé that it might be technically difficult, or not even feasible, for users of the facility to state their policy commitments over a three-year period, Mr. Hassan continued. Such a requirement would lead to further complications and delays in preparing policy framework papers.

The issue of confidentiality was an important one for a number of his authorities, Mr. Hassan noted. The judgment on what issues should remain confidential should be left to the authorities concerned and should not be made by the Fund. For that reason, in drafting policy framework papers, an effort should be made not to include specific policy commitments. Moreover, the decision on circulation of policy framework papers should be left to the authorities.

Mr. Al-Assaf requested clarification on a technical point raised by Mrs. Ploix relating to the calculation of the Fund's credit activity, namely, that in the future, if any structural adjustment facility credits were included in the calculation, reimbursements of Trust Fund loans should also be included. He was concerned that that proposal might raise accounting and other reporting problems. On the one hand, structural adjustment facility loans were financed from the Special Disbursement Account within the General Department and, as such, had to be included in the calculation of the total credit of the General Department. On the other hand, Trust Fund reimbursements were associated with an Account administered by the Fund on behalf of others. Therefore, when the Fund financed structural adjustment facility loans from Trust Fund reflows, Fund credit outstanding was increased by that amount.

Mr. Dallara, responding to Mr. Sengupta, remarked that he had not suggested that the Fund should give in when substantive differences of view arose with the Bank on the drafting of a policy framework paper. He had stressed that as long as the Bank continued to view itself as a secondary player in the policy framework paper process, the paper would be given secondary importance by the Bank. It was important that both institutions participate as equal partners in the policy framework paper process.

It was important to recall that all members continued to benefit from the earlier decisions by India and China to forgo use of the facility, Mr. Dallara continued. That decision continued to influence positively the availability of funds for other eligible members.

The Director of the Exchange and Trade Relations Department noted that several pertinent remarks had been made on the additionality of resources to be mobilized for the proposed enhancement of the facility. Directors had also indicated by their questions some guidance on matters to which the staff should give further consideration. The staff would indeed be looking carefully at all the points that had been raised.

The Deputy Director of the Exchange and Trade Relations Department added that the discussion had been helpful in addressing difficulties which had arisen since the facility entered into operation. The consensus, as well as the differences of view, among Directors on how the facility should be operated would be reflected in future policy framework papers and structural adjustment arrangements brought to the Board. Changes proposed for the decision on the regulations for administration of the facility--for example, as a result of the increase in access for second-year arrangements--would be brought to the Board in the near future.

The suggestion that certain policy commitments could be excluded from the policy framework paper in some circumstances did not imply a wholesale removal of policy commitments from the document; indeed, the main elements of the policies that the authorities intended to implement had to be included, the Deputy Director continued. However, elements of a given policy commitment that were sensitive or confidential in the authorities' view and that were more germane to the specific requirements of conditionality under either a structural adjustment arrangement or a Bank lending arrangement could be excluded from the policy framework paper and described only in the letter of intent if the authorities so desired.

The authorities' involvement in the preparation of policy framework papers was an emerging process, the Deputy Director noted. Since the establishment of the facility, the concept of the policy framework paper had been given substance and definition. The guidelines for the staff provided that general briefs agreed with the World Bank, rather than draft policy framework papers, could be put forward to management; on the basis of those briefs, the staff mission was expected to draft the structural adjustment arrangement document in the field. Admittedly, it had not yet

been possible to follow that procedure, but as members' familiarity with the policy framework paper/structural adjustment arrangement process increased, the authorities' involvement should also increase, particularly with regard to the second- and third-year programs.

Several Directors had stressed that structural adjustment arrangements should not become a substitute for stand-by arrangements, the Deputy Director of the Exchange and Trade Relations Department recalled. The requests of member countries were being examined on a case-by-case basis. If structural adjustment facility resources were sufficient to close the financing gap that emerged from a program under a structural adjustment arrangement, it would be appropriate to provide an eligible country with those concessional resources. Similarly, if a country had an unfavorable debt service situation, it might be preferable to begin with a structural adjustment arrangement--particularly if the situation demanded a relatively long adjustment period--rather than with a stand-by arrangement, which was appropriate to shorter-term adjustment. For a few countries, the statistical basis might be inadequate to allow the monitoring required under a stand-by arrangement; in such instances a structural adjustment arrangement might also be helpful to begin the adjustment process.

The Deputy Treasurer remarked that Mr. Al-Assaf's understanding with respect to data on Fund credit was correct. Trust Fund loans were not included in presentations of Fund credit: they were not, in a legal and technical sense, Fund credits. However, he understood the point being raised by Mrs. Ploix, and the staff would look at the presentation in the light of her comments.

The Chairman made the following summing up:

The discussion today concludes the first review by Executive Directors of the operation of the structural adjustment facility. In summing up, I will begin with a few general comments and then turn to some conceptual and more specific operational issues.

1. General observations

Directors expressed strong support for the facility and indicated that they considered it to be an important channel for Fund assistance to low-income developing countries. The explicit orientation of the facility toward the alleviation of structural imbalances and rigidities was considered to be particularly important for these countries, many of which have suffered for many years from low rates of economic growth and declining per capita incomes. Recognizing that the modest amount of assistance available under the facility has been one of the important impediments to its wider utilization, most Directors supported the proposal to raise the amount of second-year disbursements to 30 percent of quota.

Directors expressed concern that the catalytic role that had been envisaged for the facility in mobilizing resource flows from other sources had thus far not materialized. That role remained a crucial one, and they therefore welcomed the indications by the leaders of the major industrial countries at the recent Venice summit that they strongly supported our initiative to triple the resources available for lending in association with structural adjustment arrangements. Directors urged management to explore all possible options to secure truly additional resources for the structural adjustment facility. It was emphasized that the role that had been envisaged for the facility would not be fully realized unless the amounts of assistance that countries could obtain under programs supported by the structural adjustment facility were increased to levels that would be more commensurate with the problems that the facility was intended to address. Directors indicated that members who have made use of the facility or are currently negotiating arrangements should not be disadvantaged by prompt use of the structural adjustment facility, in the event that its enhancement was realized. I am grateful for the indications received from a number of Directors that their authorities stood ready to contribute to the enhanced structural adjustment facility. I am also pleased to hear that the suggestions which we have made regarding the modalities of financing are in the right direction.

2. Role and content of policy framework papers

Most, but not all, Directors thought that the content of policy framework papers should be further developed and strengthened. Many also stressed that the authorities should play a much greater role than they had so far in the formulation of policy framework papers. It was noted that policy framework papers should include a more pointed and forward-looking analysis and identification of macroeconomic and structural problems and of the sources of economic growth; a more focused discussion of the authorities' strategy and the priority to be attached to key structural reforms to be sought over the next three years; a fuller description and assessment of public investment programs; and a discussion of financing requirements and the role of major aid agencies. Most Directors felt that specific policy undertakings in the initial period and general indications of policies to be pursued in the second and the third years should be spelled out in policy framework papers. Some Directors expressed concern that prior announcement of policy intentions could lead to speculative activities or involve sociopolitical sensitivities. In these cases, it was suggested that the precise timing and exact magnitude of intended changes could be left out of the policy framework paper and could be included in the staff paper on the structural adjustment program.

Directors were of the view that policy framework papers should contribute to the decision-making process of multilateral aid agencies, with many calling for a more central role for the policy framework paper in guiding the World Bank's lending strategy. Directors indicated that policy framework papers should be designed in such a way as to help ensure consistency of policy advice and other activities of aid agencies and to direct aid resources to countries undertaking strong policy reform in amounts that would make such reform efforts viable and sustainable. I took note of the differing views of Executive Directors on the role to be played by bilateral donors in the policy framework paper process. These views will be taken into account in our emerging relations with these donors. The suggestion that the Fund should hold a conference for representatives of aid agencies to familiarize these institutions with the policy framework paper process and discuss the coordination of objectives will also be examined.

Most Directors agreed that policy framework papers should be revised each year to cover policies and objectives to be pursued by the authorities during the following three-year period. Such a rolling framework would provide for a continuity of policy, which was useful for both the authorities and those supporting the member's adjustment effort. Other Directors, however, stressed that an updating of the policy framework paper would suffice; in their view a wholesale redesign of the policy framework paper each year would be burdensome for both the staff and the authorities but might be warranted if the facility's resources were enhanced.

Most Directors agreed that a wide circulation of policy framework papers was desirable, consistent with the objective of a fuller role for policy framework papers in the aid coordination process; however, in view of concerns expressed by some Directors, circulation of policy framework papers has to be subject to the consent of the authorities of the member concerned. Directors encouraged the staff to develop circulation procedures along the lines suggested in EBS/87/46, Supplement 1 (6/9/87).

3. Issues related to the policy framework paper/structural adjustment facility process

a. Fund-Bank collaboration

Directors emphasized the importance that they attached to the members' requests for structural adjustment arrangements. They urged the staffs of the two institutions to work closely together to expedite the process and to avoid undue delays. Closer collaboration between the two institutions should not be allowed to lead to cross-conditionality. However, for a very limited number of cases in which the Bank was not in a position to contribute to the preparation of a possible structural adjustment facility operation

within a reasonable time period, I take it that Directors would not regard it as an absolute requirement that the Bank be involved in the preparation of the policy framework paper.

A number of Directors were disappointed that the policy framework paper had not been utilized more fully for World Bank policy-based lending. Speakers welcomed the conclusion of IDA 8 negotiations and were pleased in particular that \$3.0-3.5 billion was to be used for structural adjustment lending in conjunction, to the extent possible, with the structural adjustment facility. Several Directors hoped that policies governing use of IDA 8 would be finalized soon and in such a way that would enable IDA to lend in parallel with the structural adjustment facility, drawing upon the policy undertakings stipulated in the policy framework paper.

b. Staged approach

Directors emphasized that structural adjustment facility supported programs should continue to be based on comprehensive and detailed analysis and focused around comprehensive structural reform. However, some Directors indicated that in a limited number of exceptional cases where this was not practicable in the initial stages but where there may be assurance that macroeconomic policies would adequately address the immediate problems and thus improve the environment for structural reform, it would be useful to allow some flexibility and to experiment with a staged approach.

c. Two-step procedure

Most Directors expressed doubts as to whether the additional staff and Board time required by the two-step negotiation process--involving separate Board discussion of the policy framework paper before presentation of the structural adjustment facility loan request--was worthwhile. They encouraged the staff to present the policy framework paper and the structural adjustment facility request simultaneously to the Board and to limit use of the two-step procedure to cases in which there were outstanding arrears to the Fund or in which there were major difficulties in the negotiating process or significant doubts about the eventual endorsement by the Board of the policy strategy contained in the policy framework paper. Where a two-step procedure was to be used, staff was encouraged to hold policy framework paper discussions to the extent feasible in the context of Article IV consultations or other discussions with the authorities.

4. Structural adjustment facility-related issues

a. Conditionality

The nature and form of conditionality underlying the request for structural adjustment arrangements that have been brought to the Board thus far was considered by most Directors to be broadly

appropriate. Directors reiterated that structural adjustment facility resources should be provided in support of strong macro-economic and structural adjustment programs that would remove obstacles to growth and make, as a minimum, substantial progress toward the achievement of a viable balance of payments position during the three-year program period; the programs must provide reasonable assurance of timely repayments of loans from the structural adjustment facility. A number of Directors, however, urged that conditionality should be more flexible and adapted in light of the objectives, particularly for growth, of the facility.

Because balance of payments viability cannot be attained by many eligible countries in the absence of increased concessional assistance, structural adjustment facility programs for these countries would have to be strong so as to provide creditor governments and aid agencies with the assurance of satisfactory macro-economic policies and the monitoring that they require in order to move forward with their operations in support of policy reform, several Directors stressed. In this connection, the decision of the Paris Club to undertake a debt rescheduling in certain cases on the basis of a structural adjustment arrangement was welcomed.

b. Benchmarks and prior actions

Directors noted that the use of benchmarks was necessary to delineate the expected path of structural reform and to facilitate the evaluation of progress under structural adjustment arrangements. They emphasized that benchmarks should be limited to those few variables that are considered most important for purposes of monitoring the program. Structural benchmarks should be formulated in specific terms so as to provide a clear understanding of the expected path of program implementation. A number of Directors considered that it would be useful to provide a more explicit framework of structural reform in the three-year program by including structural benchmarks that extend beyond the annual program in a few critical areas. While some Directors considered that the use of prior actions in structural adjustment arrangements continued to be appropriate in those cases where much remained to be done and where past performance had been somewhat unsatisfactory, other Directors noted that such use should be exceptional.

c. Protracted balance of payments criterion

While the existence of protracted balance of payments problems should remain a criterion for use of the facility, most Directors emphasized that, a priori, a low-income country satisfied this criterion. They reiterated that the assessment should involve considerable flexibility and should not be based on the mechanical application of statistical indicators.

d. Coincidence between arrangement and program periods

Directors stressed that a significant divergence between the program and the arrangement period should be generally avoided and that there should be an interval of about 12 months between the two disbursements. However, they recognized that there was a need for flexibility in the timing of presentation to the Board of annual structural adjustment arrangements; a normal delay of about three months between the initiation of the annual policy program and its presentation to the Board was acceptable. They indicated that approval of a longer delay should be granted only in exceptional cases. In those cases in which considerable delay had been experienced in the presentation of a first-year program, Directors considered that some shortening of the period between annual disbursements would be appropriate so as to minimize the difference in timing between the approval of the subsequent annual programs and the associated disbursements.

Directors noted that the preparation of policy framework papers and structural adjustment programs has absorbed a substantial amount of the staff resources of borrowing countries, the Bank, and the Fund, and they directed the staff to look for ways to simplify procedures.

I have noted the call for generalized access to Fund resources by developing countries on a concessional basis, a matter to which we will return in the context of our consideration of the recommendations of the Group of Twenty-Four on the role of the Fund.

The discussion of the first review of the operation of the structural adjustment facility has been most helpful and should contribute to a more effective and efficient operation of the facility. This will be extremely important as we advance our efforts to increase the amount of resources that can be made available to the low-income countries under the facility. The next review of the structural adjustment facility will be held not later than May 31, 1988.

Let me reiterate that I am really grateful for the many expressions of support for the initiative to increase the resources available through the structural adjustment facility. I intend to report to you frequently on the progress that we are able to make. That progress will depend crucially upon your continuing support.

2. EXECUTIVE DIRECTOR

The Chairman bade farewell to Mr. Lundstrom at the conclusion of his service as Executive Director.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/87/92 (6/19/87) and EBM/87/93 (6/19/87).

3. DOMINICA - TECHNICAL ASSISTANCE

In response to a request from the Dominica authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/87/163 (6/16/87).

Adopted June 19, 1987

APPROVED: December 22, 1987

LEO VAN HOUTVEN
Secretary

