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0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/91

10:00 a.m., June 18, 1987

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
Dai Q.	Jiang H.
	M. K. Bush
	L. Hubloue, Temporary
	E. Feldman
M. Finaish	
	B. Goos
	J. Reddy
A. Kafka	J. Hospedales
T. P. Lankester	M. Foot
H. Lundstrom	J. Ovi
M. Massé	
Mawakani Samba	
Y. A. Nimatallah	I. A. Al-Assaf
G. Ortiz	L. Filardo
H. Ploix	
G. A. Posthumus	
C. R. Rye	
	O. Kabbaj
A. K. Sengupta	L. E. N. Fernando
K. Yamazaki	M. Sugita
	N. Kyriazidis

L. Van Houtven, Secretary and Counsellor
S. L. Yeager, Assistant

Also Present

IBRD: M. L. Fox, Operations Policy Staff; E. R. Grilli, Economics and Research Staff. African Department: A. D. Ouattara, Counsellor and Director; R. J. Bhatia, Deputy Director; R. H. Nord. Asian Department: P. R. Narvekar, Director; K. A. Al-Eyd, L. Mendras, E. A. Milne, G. Szapary. 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, A. Chopra, B. Christensen, H. Flug, H. Hino, H. B. Junz, S. Kanesa-Thasan, N. Kirmani, M. Nowak, R. L. Sheehy. External Relations Department: A. F. Mohammed, Director; H. O. Hartmann, R. W. Russell. Fiscal Affairs Department: V. Tanzi. Legal Department: F. P. Gianviti, Director; W. E. Holder, Deputy General Counsel; R. H. Munzberg, J. M. Ogoola, S. A. Silard. Middle Eastern Department: H. P. G. Handy, M. D. Knight, K. Nashashibi, M. Yaqub. Research Department: J. A. Frenkel, Economic Counsellor and Director; 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; D. Berthet, J. E. Blalock, D. Gupta, D. V. Pritchett. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; J. O. Bonvicini, M. Caiola, J. Ferrân, T. M. Reichmann, G. Yadav. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: P. E. Archibong, M. B. Chatah, L. P. Ebrill, S. M. Hassan, G. D. Hodgson, A. Ouanes, I. Puro, Song G., A. Vasudevan, J. E. Zeas. Assistants to Executive Directors: F. E. R. Alfiler, M. Arif, H. S. Binay, R. Comotto, E. C. Demaestri, F. Di Mauro, W. N. Engert, V. J. Fernândez, M. A. Hammoudi, A. Iljas, J. M. Jones, S. King, K.-H. Kleine, M. Lundsager, V. K. Malhotra, R. Manfredi Selvaggi, J. A. K. Munthali, D. V. Nhien, G. Schurr, B. Tamami, H. van der Burg, E. L. Walker, Wang X., D. A. Woodward, I. Zaidi.

1. BRAZIL - RECENT MEASURES

Mr. Kafka made the following statement on recent measures taken by the Brazilian authorities:

> Last Friday, Brazil promulgated a series of far-reaching measures designed to adjust and stabilize its economy. The program comprises the following principal measures.
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> Measures designed to increase domestic saving and reduce the public sector borrowing requirement, including
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> - Reduction of the wheat subsidy.
> - The adjustment of public sector prices. These measures will, obviously, also improve the allocation of resources and thereby increase the operating efficiency of the economy.
> - Postponement for six months of all major public investment projects.
> - Effective extinction of the right of the National Monetary Council to authorize central bank operations other than for purposes of monetary and exchange policy and transfer to the Treasury of the authority to issue debt. The Central Bank is effectively prevented from financing fiscal expenditures.
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> The effect of these measures is informally and provisionally estimated to result in an operational public sector borrowing requirement for the second half of 1987 of 1.6 percent of GDP, compared with 2.3 percent during the second half of 1986 and 1.9 percent during the first half of 1987. Since many extra-budgetary expenditures were incorporated in the 1987 budget, the comparisons are tricky and it will be some time before completely reliable figures become available.
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> Measures designed to improve the external competitiveness of the Brazilian economy, including
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> - Devaluation of the cruzado vis-à-vis the U.S. dollar by 9.5 percent as from June 12, 1987, following a devaluation by 7.5 percent approximately one month earlier. It will be recalled that during the period between these two devaluations, daily devaluations proportional to the rate of inflation continued.
> - Daily devaluations proportional to the rate of inflation are to continue.

The present real effective exchange rate is estimated to be equal to the rate prevailing immediately following the "maxi" devaluation of February 1983, which started the sharp improvement of the trade surplus in the period 1983-85.

Measures to interrupt so-called inertial inflation, including

- Extinction of the so-called wage trigger. The wage trigger will operate for the last time in June to offset the price increase that took place in May, compared with April. The price increases not yet offset by the triggers, which operated through May--the monthly trigger had a limit of 20 percent--will be compensated in six monthly installments, following the end of the price freeze. At that time wages also will be adjusted monthly in proportion to the average rate of inflation of the previous three months.

- All prices are frozen for a maximum period of 90 days beginning June 12. This period may be shortened but cannot be extended. Partial adjustments of prices during the freeze may be authorized. The freeze will be followed by a period of flexible pricing during which prices may be allowed to change in a controlled manner; price changes are not to exceed changes in cost.

- Annual wage negotiations are freed. However, wage increases exceeding the average rate of inflation measured by the consumer price index cannot be incorporated in prices.

The far-reaching freedom to adjust private sector prices which has prevailed recently suggests that a realistic structure of relative private sector prices has been re-established. Moreover, it is assumed that private sector prices are above their equilibrium level in relation to unadjusted public sector figures. Hence, there is a margin which can absorb the upward adjustment of public sector prices now decreed.

With respect to monetary policy, during the first five months of 1987 the monetary base did not expand and M-1 declined by about 15 percent. Monetary policy will continue on a restrictive course. No limits are to be imposed on interest rates. Indexation of financial assets is maintained so as to preserve a positive real rate of interest.

As for the plan's prospects, the principal points of difference between the plan that went into effect on February 28, 1986 and the present plan are much stricter control over government expenditures and their financing by the monetary authorities; the short duration of the price freeze, the scope for some flexibility during the freeze, and the clear commitment to a return to market-determined prices; the absence of any exchange rate freeze; and the commitment to positive real interest rates.

I would add that the plan makes no pretense of reducing inflation to zero from one day to the next but realistically aims at reducing it to a very low level.

Mr. Nimatallah said that he welcomed Mr. Kafka's announcement, particularly with regard to the elimination of central bank lending to the Ministry of Finance. That was an important step in the right direction.

The Chairman remarked that he agreed with Mr. Nimatallah. The measures that the Brazilian authorities had announced were indeed welcome.

2. STRUCTURAL ADJUSTMENT FACILITY - REVIEW OF EXPERIENCE

The Executive Directors considered 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 on enhancement of the resources of the structural adjustment facility at IS/87/3 (6/12/87).

The Chairman remarked that during his trip to Europe on July 10, he and Mr. Qureshi, Vice President of the World Bank, would informally exchange views with representatives of the Group of Ten in Paris for a meeting of the Working Party-3, on the initiative to enhance the resources of the structural adjustment facility, as well as the World Bank initiatives with respect to rescheduling, cofinancing, and structural adjustment. 1/ In addition, a Fund team would be visiting several countries in the coming weeks to elicit the views of national authorities on the enhancement. It was hoped that the proposal for an enhanced facility could be submitted to the Interim Committee at its September meeting.

The Director of the Exchange and Trade Relations Department remarked that two points in the staff paper warranted clarification. The first point concerned the staff's suggestion that the more specific policy commitments of a borrower could be discussed in the letter of intent requesting the structural adjustment arrangement or in the Bank's lending document. That suggestion was not intended to affect the basic content of the policy framework paper, which would continue to describe the authorities' policy intentions, nor was it intended to weaken the policy commitments of the paper. Rather, the suggestion reflected the staff's concern that some commitments should be kept confidential--for example,

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1/ The Chairman reported on his meeting with representatives of the Group of Ten at IS/87/4 (7/15/87).

those that could lead to speculative activities. Those commitments would be confined to the document on the request for a structural adjustment arrangement or the Bank's lending document, as appropriate, circulation of which would be limited.

The second point concerned the staff's suggestion to allow some flexibility regarding the interval between annual disbursements, the Director continued. The staff paper in support of a member's request was sometimes submitted to the Board for approval some time following the beginning of the policy planning period of the member country, which was normally the budget year. In those instances, there were several ways to bring the phasing of disbursements under the facility back into line with the authorities' policy planning year. For instance, if the time interval involved was small--one or two months--some flexibility could be allowed in scheduling disbursements. If the interval between the policy planning period and arrangement year were longer, three alternatives were possible: the staff paper could be held up until the beginning of the next policy planning year; a greater degree of flexibility might be allowed, perhaps covering a period of five to six months; or, the program and planning periods might be allowed to remain out of phase. None of those alternatives was particularly attractive, but the staff had suggested that in exceptional cases, the Board might allow the staff a degree of flexibility, at least for a trial period.

The staff would be available in the Executive Board Room in the afternoon to answer Executive Directors' questions on the staff paper on the modalities for mobilizing resources in association with the structural adjustment facility (EBS/87/129, 6/12/87), the Director of the Exchange and Trade Relations Department noted.

Mr. Dallara submitted the following statement for the record:

> This review of the structural adjustment facility is particularly timely, coming as it does after the Venice summit, which gave special attention to the difficulties of low-income developing countries and called for renewed impetus for the support of such countries. The United States joins other summit countries in welcoming the Managing Director's proposal to expand significantly the resources of the structural adjustment facility. We view this basically as an opportunity for those countries with relatively strong budgetary and/or balance of payments positions to lend special support to the low-income debtors.
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> The structural adjustment facility is central to the Fund's efforts to help address the economic and financial difficulties of low-income developing countries with protracted balance of payments problems. As the summit countries recognized, these low-income countries are confronted with uniquely difficult problems, such as severe poverty, limited resources for development, dependence on narrow export bases, and difficult external debt situations. Moreover, those problems need to be addressed

in a comprehensive fashion in order to achieve the important goals of sustained economic growth and balance of payments viability. Therefore, the policy framework paper approach, with supportive programs and financing under the structural adjustment facility and under policy-based adjustment programs at the Bank, remains the key to our efforts to support low-income members. The enhanced coordination taking place between the Bank and the Fund is crucial to the success of this effort. In reviewing our 15 months of experience with this approach, we are encouraged by the success achieved thus far in launching this new facility, although there is clear scope for additional progress. Today's review can give added impetus to the efforts of all parties.

The policy framework papers play a critical role in helping to ensure the success of the overall approach, and consequently of the facility, because they represent--or certainly should represent--a consensus among the member country, the Fund, and the Bank on the nature and magnitude of problems facing the member, the most effective ways of addressing those problems, and the related financing needs. The collaboration that takes place among the member and the two institutions should enhance the strength of the authorities' commitment and the likelihood of mutually supportive macroeconomic and structural policy objectives and consistent policy advice. Overall, the policy framework paper is the document that should guide the lending programs and the more detailed policy commitments which are contained in structural adjustment arrangements and Bank programs. In general, policy framework papers have been moving in the right direction; however, they do not seem to have served as useful a function for the World Bank as they have for the Fund. Therefore, we think it important to find ways to improve the policy framework papers so that it will play a central role in guiding the Bank's country strategies and lending programs. In addition, we hope that the role of these papers will be enhanced so that they can also help guide bilateral aid flows.

All policy framework papers have involved an analysis of problems, presentation of overall objectives and policy priorities for a three-year period, and discussion of financing problems. In this regard, the timetables and policy matrices attached to the papers have been helpful. We have found these papers generally to be most useful in conveying the policy commitments and measures to be taken in the first year. For the second and third years, the papers while less specific, still have provided the direction and general scope of future policy change. While policy framework papers have been generally similar, we have been struck by the degree to which they have differed in structure, and therefore suggest that a common format be followed. A common format for the structural adjustment arrangement would also be helpful.

The staff has made a number of suggestions for modifying the policy framework papers, some of which go in the right direction and which we can support. A number, however, do not seem to be helpful as they could lead, on balance, to a weakening of our collaborative approach.

First, we welcome the suggestion to extend policy framework papers by one year at each updating period, so as to have a rolling three-year framework. This should assure that the medium-term focus will continue and thus should be particularly useful to the Bank in view of its medium- to longer-term horizon. I note that Bank management and some Bank Directors have suggested improvement in coverage of the sources and prospects for growth, and more discussion of supply-side factors and longer-term development issues. The rolling policy framework papers will allow somewhat greater scope for addressing these issues, and that sustained growth and balance of payments viability over the medium term should remain the broad objectives that drive all aspects of the policy papers.

The staff has proposed that policy framework papers be regarded as "steering briefs," which would give more emphasis to analyzing a country's problems and less emphasis to describing the policy commitments for addressing those problems. We are receptive to the idea of more in-depth analysis of problems and potential solutions; however, we cannot agree that less emphasis and attention should be given to policy commitments. The staff suggests that the chief advantage of the proposed approach, which shifts the emphasis away from policy commitments, would be to encourage greater support from bilateral and multilateral aid agencies. Experience suggests the opposite: other donors are unlikely to link their funds to policy framework papers without a clear and reasonably detailed sense of the content, direction, and timing of the recipient country's adjustment program. It is therefore important that policy framework papers have concrete objectives for guiding key policies for the three-year period covered. We also would stress the need for some degree of specificity regarding the pace and general direction of intervening policy steps that are necessary to achieve those objectives. In general, we have been comfortable with the specificity of the papers to date and therefore cannot agree with the staff's proposals for shifting away from policy commitments.

The staff notes that there might be cases where structural adjustment facility loans are possible, but where the Bank does not have sufficient information on the countries and/or does not intend to be involved in a lending arrangement. The staff suggests that, in such cases, the Fund could go forward without the Bank. As a general policy, we strongly believe that the two institutions should move in tandem. It is critical that both be involved in every case, in at least the analytical and prescriptive stage of developing the policy framework. We believe that the analysis and diagnosis of a broad range of macroeconomic and structural problems and the delineation of policy solutions can only be effective if done jointly by the two institutions. In rare cases, where immediate Bank lending might not be forthcoming, one of the other development banks could become involved through providing input for the policy framework papers and through associating its lending arrangements with loans under the facility. In these cases, the World Bank should continue to be involved so as to ensure that, in its judgment, the program content meets the same standards as for other countries.

The staff also suggests that, in a limited number of cases, a "staged approach" to developing policy framework papers could be a useful alternative in situations where agreement on a full range of policies cannot be reached. In these cases, the staff suggests that attention would be given to macroeconomic problems in the first policy framework paper and structural problems in revised papers. We have difficulty with this approach also, as we think that the breadth and depth of problems dictate a fully integrated and well-coordinated approach at the outset of the development of policy framework papers. Furthermore, the staff points out that in collaborating on papers with the Bank thus far, the principle that "full agreement must be secured on all major fronts" has been followed and that differences of view have been resolved by the operational staff or at higher levels. We strongly believe that this is the appropriate approach to continue following in jointly developing the frameworks, rather than to move toward separation of responsibilities.

Finally, the staff point out that the authorities of member countries have had only limited involvement in the development of papers and that preliminary discussions with the authorities could be held prior to drafting the papers. We realize that this may be difficult; however, it is clear that early and extensive participation by the authorities is critical to the development of a viable framework and to assure the authorities' commitment to the adjustment program. Therefore, we urge the staff to take steps to increase the involvement of the authorities in this process.

Our broad perspective on the policy framework papers just outlined lays the basis for the evolution that we would like to see in programs under the structural adjustment arrangement. With the policy framework papers laying out performance objectives and policy adjustment paths for three years, yearly programs should provide the specific steps needed in a particular year to reach those goals. In that regard, we welcome the specificity we have seen in individual letters of intent. We are not certain, however, that the letter of intent needs to spell out in great detail the policy steps that will be implemented during the second and third years of the program. We envision three successive letters of intent, each one focusing on the program for the coming year within the framework of a rolling policy framework paper. To provide a sense of continuity, perhaps a reference could be made to the updated papers in the letter of intent.

We agree that it is generally a good idea to align policy framework papers and annual programs with the budget cycle. If a lack of coincidence occurs, we would suggest some alternative approaches: disburse the first of the three-year tranches in the middle of the first annual program with the understanding that the second tranche would be disbursed in the middle of the second annual program; as mentioned in the staff paper, delay presentation of the arrangement for the first year so that it will coincide with the member's fiscal year; or disburse the first tranche immediately, but at a reduced rate--perhaps one half of the first-year amount--and then resume full disbursements on cycle for the second annual program. We find these suggestions preferable to a close bunching of the first two disbursements caused by a start on the first year program late in the member's fiscal year. In fact, the first option might assist us in dealing with one shortcoming of the facility in that it could facilitate the monitoring of arrangements.

In conclusion, we view the policy framework papers and annual arrangement under the structural adjustment programs as complements rather than substitutes. And we believe that there should be more cases in which we have a two-stage discussion, with the policy framework papers being formulated first, at which time the proposed three-year thrust, overall scope, and pace of adjustment could be evaluated. Directors' views expressed during Board discussion of the policy framework papers could then guide the formulation and implementation of the first annual program. In addition, we agree that the policy framework papers can be circulated separately from the structural adjustment arrangement documents.

Clearly, it is in the Fund's interest to support countries that move expeditiously to undertake policy reforms under the facility that are designed to correct their protracted balance of payments problems. Therefore, we support a substantial increase in access for the second year from 13.5 percent of quota to at least 30 percent of quota as suggested by the staff, and to an even higher level, if that is feasible in terms of the likely availability of the facility's resources.

The availability of funds is, of course, dependent on the extent of use of the facility. With regard to the funds currently available, we suggest that an approach be devised to free resources that are now being held for members that have not yet drawn on the facility or initiated serious negotiations. For example, at our formal review next year, we should consider the option of reducing the access that could be available to those members who have not already negotiated a sructural adjustment arrangement. Resources that had been held for those members would then be released to augment the funds available for members moving expeditiously to negotiate programs. Alternatively, we might consider limiting the use of the facility to those countries that have adopted comprehensive programs and have successfully negotiated structural adjustment arrangements. Those members who had not made such progress would be removed from the list of eligible members. In this regard, if any eligible members have already determined that they do not expect to draw on the facility, we would encourage them to notify the Fund of that decision.

Clearly, the criterion that countries seeking financing from the structural adjustment facility must have a protracted balance of payments problem is critical to the effective utilization of the facility's resources. We agree that a wide range of indicators must be examined, that both recent and prospective performance is relevant, and that the criterion must be adhered to strictly. In some cases to date, it did not appear that the staff had taken an adequately rigorous approach. Difficult judgments must be reached, but without a conscientious effort to channel resources to those countries with truly protracted payments problems, the facility's resources will not reach those Fund members with the most to gain from such assistance. If the staff finds it difficult to reach a judgment on a particular case, the Board could be consulted.

We have been pleased to see that, in a growing number of countries, the World Bank and the Fund are improving their process of collaboration with the countries' authorities and that more closely integrated programs are being prepared. Furthermore, the World Bank has increased its lending to a number of countries that have embarked upon broad-ranging structural adjustment programs. Those countries that have policy framework papers and structural adjustment arrangements in place are receiving more concessional Bank support--through IDA and the Special Facility--than previously. Nonetheless, it is not yet clear that the World Bank is, in the majority of cases, using the framework papers to help it set priorities in its lending programs. Specifically, we had hoped that by now the World Bank would have developed procedures for explicitly linking its country lending directly to the policy framework paper. In addition, in a number of cases, even greater financial support by the World Bank would have been appropriate, since IDA financing is provided on terms most suitable to meet the financing needs of these countries.

We are looking ahead to IDA-8, as agreement has been reached to channel a significant portion of that replenishment to the low-income members adopting adjustment measures in conjunction with policy framework papers. IDA-8 should expand the possibilities for augmented concessional financing flows to these countries and furthermore should help strengthen the linkages between Bank loans and policy framework papers. In particular, we would expect the Bank's country lending programs to evolve explicitly from the priorities set in the policy framework papers and financing programs to be more quickly formulated and approved. In addition, the agreed papers would also help to facilitate preparation and negotiation of follow-on IDA credits. As we mentioned earlier, policy framework papers should be improved so that they will be more useful for these purposes.

At the Development Committee meeting in April, U.S. Treasury Secretary Baker called for a joint review of progress by the Bank and the Fund in implementing the collaborative policy framework paper process. Specifically, he suggested that the issues covered in the review should include the process of cooperation in negotiating adjustment programs, the effectiveness of policy changes, and the relationship of the adjustment programs to the two institutions' lending programs. We are pleased, therefore, that the Development Committee decided to undertake such a review at a future meeting, and hope this review can take place in September, building on the review we are conducting today. This review and IDA-8 could play an important role in bringing the policy framework paper into a central position as a guide to World Bank operations.

I have two comments on procedural issues. First, our experience up to now leads us to the conclusion that missions have not had adequate "jointness." In order to encourage improvement, we recommend a stronger World Bank presence on the missions negotiating policy framework papers, including more World Bank staff than have participated to date and, importantly, some World Bank mission leaders. This could be particularly appropriate in countries with which the World Bank has a closer relationship than the Fund. Second, to strengthen the collaborative effort, we suggest that Fund management and World Bank management meet quarterly to review progress in the implementation of this program and to coordinate plans for future policy frameworks, including timing, mission arrangements, and prospective plans for Bank and Fund financing of new and ongoing programs. Finally, with the World Bank now prepared to engage in policy-based lending for countries adopting programs supported only by a structural adjustment arrangement, improved monitoring techniques assume more importance.

We continue to believe that financial support from all sources will be more effective if it is focused, nonduplicative, and coordinated within the context of a general framework, such as that provided by the policy framework paper. We agree with the staff that discussions with aid agencies at a formative stage of the policy framework paper and program preparation could be critical to gaining the association of bilateral aid with policy framework papers. We welcome the contacts which staff have already made with some aid agencies and urge enhanced contacts on a continuing basis. We also suggest that the Fund, in the near future, invite representatives of aid agencies to Washington for a conference to familiarize them with the policy framework process and to discuss how their own objectives can be coordinated with those of other donors, the Fund, the Bank, and the recipient countries through use of the policy framework. We also hope that Executive Directors from creditor countries will make a serious effort to better inform their aid agencies about the policy framework paper and also involve them more fully in the policy framework process.

With the increased involvement of aid agencies, it should be possible to extend bilateral aid in a way that is consistent with the major priorities and policies that are spelled out in the policy framework paper and in a way that makes the best and most appropriate use of the financing. Finally, organizing aid consortia and consultative groups around the policy framework papers and employing papers more effectively in existing aid-coordinating groups could strengthen the involvement of aid agencies with the process.

We share the view that the emphasis in program design should be on appropriate adjustment policies, and we would add that the emphasis of this facility should be on those adjustment measures that increase a country's productive potential and thus help generate higher rates of sustained growth. It is only in this context that balance of payments positions can become viable over the medium term. We have found, in a number of cases, that early implementation of strong measures leads to the quickest supply response, thus increasing the likelihood that the adjustment effort will continue. For that reason, we support the use of prior actions, including in the second and third years, particularly if performance falls short of expectations in the first year. We believe that implementation of comprehensive macroeconomic and structural programs has contributed to World Bank willingness to consider policy-based loans for countries requesting only a structural adjustment arrangement and not a stand-by arrangement. In addition, broad-ranging programs of this nature were a critical factor in the Paris Club decision to reschedule on the basis of a structural adjustment arrangement.

These two important indications of support bring me back to the central role of program monitoring. Occasional, even periodic, updates on a country's progress could play a crucial role in maintaining the confidence of donors and creditors. In our current situation, with no formal reviews of structural adjustment arrangements, we look to an Article IV or stand-by discussion at some time other than the approval of the arrangement to include explicit descriptions of its implementation. In several recent cases, such "mid-term opportunities" arose, yet staff did not include in these papers explicit mention of performance as it related to the benchmarks in the structural adjustment arrangement. While economic progress was discussed, structural adjustment arrangement specifics were not, which makes it difficult to identify, with full confidence, progress under the structural adjustment arrangement. In the future, we hope to see clearer status reports of performance under arrangements when the opportunity arises.

However, we would prefer that such monitoring take the form of reviews, particularly in view of the prospects for augmentation of the facility's resources. Formal reviews would help to ensure that additional resources would be used most effectively; and, importantly, a willingness to incorporate reviews could help in the effort to secure such additional resources. We should give serious consideration to this matter at an early stage.

Benchmarks are particularly important in providing a means of evaluating progress, so that changes in external developments, or weaknesses in policy implementation or program design can be discovered and addressed. We agree that financial benchmarks are necessary to maintain a sound macroeconomic environment. However, we would like to see more use of and clarity in structural benchmarks in the annual programs. Specifically, crucial supply-side measures--such as pricing adjustments and the formulation and implementation of trade, tax, public enterprise or financial sector reforms--should be explicitly incorporated as benchmarks. The time element is critical here, and benchmarks should be set so as to bring about a progressive adjustment of policies. In addition, referring to the policy framework policy matrix in the structural adjustment arrangement would highlight the importance of those supply-side measures that are critical to the program's success.

Two concerns arise from the proposition in the staff paper that structural adjustment facility loans could be combined with stand-by arrangements in the majority of cases. First, the terms of the structural adjustment arrangement are much better suited to the financing needs of these countries, and less use of the Fund's ordinary resources could help improve their medium-term debt service profiles. And second, in some cases, if use of ordinary resources is minimized, members might be better able to avoid the emergence of arrears to the Fund. We do, of course, expect to see analysis in all structural adjustment arrangement requests of a member's ability to repay the Fund. With regard to members who are actively trying to eliminate their arrears to the Fund, consideration of the policy framework paper alone is acceptable prior to the full clearance of arrears, to be followed by a structural adjustment arrangement, once arrears are eliminated. We hope that this flexibility will encourage early formulation and implementation of adjustment programs that could generate the donor/creditor support needed to eliminate arrears.

In conclusion, I believe we are off to a good start with our new facility. We recognize that the overall process of developing policy framework papers, and related structural adjustment arrangements and World Bank loans, is not an easy one, as it is requiring some difficult changes in institutional relationships. However, we believe that the collaborative effort between the Fund and the Bank is the only means by which the problems of low-income countries can be effectively addressed in order to enhance substantially their prospects for growth and balance of payments viability. The potential increase in resources for the facility, combined with strong adjustment programs, gives added hope that our efforts to promote sustained growth will succeed. We look forward to continued progress with the entire program.

Ms. Bush, augmenting Mr. Dallara's statement, remarked that while her chair had not recommended fundamental changes in the procedures governing the facility, some modifications and adaptations could help to make it more effective and promote the broad-ranging adjustment effort that was needed in many low-income countries to support sustained growth and balance of payments viability. Those modifications might also help to secure additional concessional funding in support of the authorities' adjustment efforts. In that regard, she welcomed the Managing Director's proposal for enhancing the facility's resources.

A few issues that were a cause for concern should be highlighted, Ms. Bush added. First, it was important to utilize fully all the expertise that the Fund and the World Bank could provide the low-income members. It was therefore critical that the Fund should continue to take a strong collaborative approach to formulating policy framework papers. Although that approach was occasionally time consuming--even frustrating--to the staff of the Fund and of the Bank, a coordinated approach to macroeconomic and structural adjustment was needed, particularly if countries were to achieve a higher rate of growth and balance of payments viability.

Some of the suggestions made by the staff could weaken that collaborative effort, Ms. Bush continued. Specifically, preparation of the policy framework paper without Bank participation was not consistent with the goal of fully integrating use of the papers in the Bank's country and lending programs. She hoped that additional ways could be found to improve the papers so that they could more usefully support the Bank's programs.

In view of the importance of assuring the effective use of the facility's resources, she welcomed the coming on stream of IDA-8 resources to be used in conjunction with loans under the facility, Ms. Bush commented. She also welcomed management's proposal for enhancing resources under the facility.

Mr. Nimatallah made the following statement:

> Fund-supported programs have worked well in certain countries, but not as well in others, owing in part to structural problems. For that reason, a different approach to low-income countries with special problems became necessary and led to the creation of the structural adjustment facility with the objective of putting more emphasis on structural adjustment within a medium-term framework.
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> Now that the facility has been in operation for a year, it is appropriate that the Board assess the success of this approach. While it may be too early to assess with confidence many aspects of the facility, it is not too early to see if any glaring shortcomings have begun to emerge. Although only a dozen countries have benefited from the use of the facility's resources so far, I am generally satisfied with the progress and performance of the facility. However, improvements could be introduced to enhance its role and attractiveness.
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> First, the objectives of the facility should be achievement of not only balance of payments viability, but also sustainable growth. Growth must be identified as an objective in its own right. Thus, to respond effectively, the major areas for evaluation include the importance of the policy framework paper; the speed of negotiations to put structural adjustment arrangements in place; adaptation of conditionality to the reality of these programs; and the facility's resources and access to them.
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> From the beginning, I have viewed the policy framework paper as a rough planning document for identifying objectives and policies covering a three-year period. The papers should be flexible and adaptable to changing economic circumstances. Only the request for a structural adjustment arrangement should be brought to the Board for discussion, and the policy framework papers should be used as background. Furthermore, the papers should be available not only to the Fund and the Bank, but also to all governments and institutions that may be interested in providing resources to the member country, either directly or indirectly.

The structural adjustment facility process is inherently more complex than the process for reaching agreement on stand-by arrangements, and, therefore, it will take longer to negotiate and put structural adjustment arrangements in place. However, the pace of the process could be accelerated by, for example, eliminating certain steps, and delineating the responsibilities of the staffs of the Fund and the Bank. For instance, it may be necessary at times to proceed with the loan request with a less detailed policy framework paper, on the understanding that the paper will be expanded and finalized at a later stage.

Furthermore, the involvement of the World Bank, although helpful most of the time, can sometimes slow down the negotiation process. When the Bank does not have enough information on a country to proceed, the Fund could proceed with the preparation of the policy framework papers without the participation of the Bank staff. I understand that at times the Bank is slow in formulating its views; in those instances, the staff could proceed with a less detailed policy framework paper, until a more complete analysis by the Bank can be incorporated at a later stage.

In this connection, I would suggest that the Fund does not have to wait to prepare a policy framework paper until it is approached by a member for a loan under the facility; instead, papers should be prepared for eligible countries whenever the opportunity arises, say, at the occasion of an Article IV consultation. The staff paper in support of the arrangement could then be prepared later when an actual request is received. This procedure will give the staff more time and an opportunity to frame its policy recommendations within a medium-term perspective. I could even envisage a situation where the formulation of a policy framework paper could give the member country an incentive to consider requesting a structural adjustment arrangement.

Another factor reinforcing my views on this point is that, in some cases, the authorities have not contributed very much to the formulation of the policy framework papers. This hopefully can be rectified if the authorities are given enough time and if the papers are prepared separately and before a request to use the facility is received. This procedure can also be helpful when there is a rush to complete an arrangement; for example, Somalia's recent request did not have the benefit of an early policy framework paper.

The question of conditionality involves qualification to use the facility, monitoring, and cross-conditionality. On qualification, I think that the present criterion excluding eligible countries not suffering from protracted balance of payments difficulties is restrictive under the circumstances. In light of the objectives of structural adjustment arrangements--namely, restoring both balance of payments viability and growth--

I do not think that protracted balance of payments difficulties is a necessary requirement for eligibility. The other qualification difficulty is the problem of overdue obligations. Members with overdue obligations cannot, of course, enter into a structural adjustment arrangement with the Fund. But, this should not preclude the staff from preparing a policy framework paper, which can pave the way for a request once the member has become current.

On benchmarks and monitoring, benchmarks are needed, both when a structrual adjustment arrangement is associated with a stand-by arrangement, and when there is a structural adjustment arrangement alone. In all cases, annual reviews should be meaningful, and connected with release of Fund resources. I have no difficulty with the staff suggestions to limit the number of benchmarks, introduce three-year benchmarks, and make annual benchmarks more specific.

On cross-conditionality, I welcome more coordination between the Fund and the Bank, as long as both institutions work closely with the authorities in formulating policies and following up on policy implementation. In my view, cross-conditionality occurs only when one institution makes the disbursal of its resources contingent upon the satisfaction of conditions agreed with the other institution; for example, if the Fund were to deny a purchase by a member until the member was in compliance with the Bank, even though the member's Fund-supported program was on track. That, in my judgment, would constitute cross-conditionality, and I am against it. However, close coordination on policy formulation and monitoring does not, in my view, constitute cross-conditionality.

The magnitude of the problems facing the poorest eligible countries, as well as their inability to gain access to commercial borrowing, far exceeds both the facility's existing resources and access to those resources. It is true that the facility was originally expected to play a catalytic role in attracting additional resources. However, that catalytic role has not yet materialized to the extent hoped for. In this respect, I see great merit in the Managing Director's efforts to try to mobilize additional resources for the structural adjustment facility. Moreover, access to the facility's resources will have to be increased gradually, in line with the availability of resources. In this connection, I support the proposal to increase the overall access limit to 63.5 percent of quota, by increasing access in the second year to 30 percent of quota.

I am pleased that the Fund is doing its utmost to help its poorest members through the structural adjustment facility. I am also pleased that the Managing Director has initiated efforts to enhance the facility's resources. I hope these efforts succeed, as these resources obviously will be needed. I am almost certain that many members eligible to use the facility will enter into arrangements with the Fund in the coming few years. My major concern, however, is that despite the Fund's best efforts, these members will still face a rough road ahead if their terms of trade deteriorate further and if the markets of their trading partners are not opened. Therefore, it is important to recognize that the need for cooperation extends beyond the efforts of the Fund, its Managing Director, and the members eligible to use the facility.

Finally, I want to clarify two points. First, both the Bank and the Fund were established as institutions to help member countries achieve adjustment with growth: the Bank emphasizes structural adjustment leading to growth; the Fund emphasizes macroeconomic adjustment leading to growth. Therefore, the objective of structural adjustment arrangements should be not only to restore balance of payments viability, but also to restore growth. In the early stages, adjustment may receive more emphasis, while at later stages, both adjustment and growth can take place simultaneously, without tradeoffs.

I am pleased to note that Mr. Dallara has emphasized that the facility should focus on adjustment measures that increase the member's productive potential, and thus help generate higher rates of sustained growth. For that reason, a protracted balance of payments problem is not a necessary requirement for eligibility to use the facility. As Mr. Lankester has correctly indicated, a low-income country, by definition, has an incipient balance of payments problem, and, I would add, should not be deprived of the right to use the facility's resources because it happens to follow appropriate external policies.

The second point relates to the high cost of administering the facility. It would be more economical if the policy framework paper process could be initiated with Article IV consultations, or at any other opportunity, even before a formal request for an arrangement is received from a member. Furthermore, to reduce the work load of the Board and the staff, the Board should not discuss policy framework papers separately; instead, the papers can be issued at any time for reading as a background paper, and scheduled for Board discussion together with the paper on the member's request for a structural adjustment arrangement.

As for those issues raised by the staff which I have not addressed, I have an open mind and can go along with the consensus of the Board.

Mr. Lankester submitted the following statement for the record:

First of all, let me say that we would like to see rapid progress in the discussions that the Managing Director has initiated with a view to enhancing the resources available to the structural adjustment facility. A significant enhancement is certainly desirable if the Fund is to make an adequate contribution to resolving the difficulties of the poorest, heavily indebted countries. We view this initiative as complementary to the proposals that my Minister put forward at the Interim Committee in April for reducing the burden of repayment to bilateral official creditors. We would like to see early agreement on this initiative too.

But this debate is not the occasion to discuss how the facility should be enlarged or who should bear the cost. Rather we should try to agree on issues relevant to the proper functioning of the facility as it currently stands, so that it does not grind to a halt until potential users can see the fruits of an enhanced facility. Only in one respect should we look forward today: we must assure members who already have made use of this facility or who are actively engaged in negotiating access that they will in no way be disadvantaged by their prompt use of the facility. Otherwise, negotiations on current structural adjustment arrangements are likely to come to a halt.

I must confess to mixed feelings about the nature and use of policy framework papers. In some cases mutual understanding between Fund staff and Bank staff has been improved and the scope for subsequent disagreements over key policy variables has been reduced; that is all to the good.

At the same time, policy framework papers have tended to be lacking in hard facts and in hard assessment of whether or not the program to be supported under the facility realistically addresses the particular country's needs. Every policy framework paper seems to promise reform of parastatals, a review of the civil service, consideration of tax reform, better controls on public spending, and so on. These are worthy aims. But shorn of detail and an adequate macroeconomic framework, such promises do not help a great deal. Yet despite their generality, the drafting of policy framework papers seems to have involved an enormous amount of staff time and effort.

It is hardly surprising then that discussion of policy framework papers in the Boards of the two institutions has been less than rivetting. And the papers have yet to be of much help to bilateral donors in their aid planning.

I offer the following thoughts on the future of policy framework papers:

- Although there are sometimes problems of confidentiality, policy framework papers need to be more pointed in their assessments. They need to set out clearly the priority to be given to the major structural issues. And they should indicate the progress to be expected in tackling each of them in the three-year period.

- We favor a three-year rolling policy framework paper, on the basis that it will keep attention focused on longer-term issues and is necessary if the paper is to be used more widely;

- More account needs to be taken of bilateral donors' requirements. One possibility would be to incorporate details of the public investment plan in the policy framework paper. Major donors might be consulted in the preparation of the paper. Alternatively, major donors might be asked for their views on the policy framework paper, which could be taken into account in their subsequent revision. Dialogue with the donors could largely be conducted in the field so as to minimize additional staff travel.

- We are prepared to see the two-stage policy framework paper/structural adjustment arrangement process used where necessary, but we would regard their combined negotiations--and their discussion in the Fund Board--as the desirable norm, in order to limit the pressure on staff resources.

- We support the wider circulation of policy framework papers suggested in the supplement to the staff paper, although this is not going to make it any easier to add substance to the papers.

I am aware that Bank-Fund collaboration has not always been easy for the two staffs, and a good deal of credit must go to those most intimately involved for making the process work as well as it has. The ongoing reorganization in the Bank must be a particular source of frustration to Fund staff, although when it is completed the Bank's ability to respond to countries'--and the Fund's--needs should be enhanced. Also, under IDA-8, $3.0-3.5 billion is earmarked for structural lending in conjunction, as much as possible, with the structural adjustment facilities, which should facilitate closer collaboration on the basis of the policy framework paper. Finally, I indeed endorse the staff view that there may be a few cases where Bank staff need not be involved in the preparation of policy framework papers.

I do not wish to see the balance of payments criterion for use of the facility tightened. It seems to me that almost by definition, a low-income country has an incipient balance of payments problem, even if it is prudent enough in its policies for this not to show up in the usual ways.

In general, we feel that structural adjustment arrangements to date have rightly aimed at striking a balance between trying to tackle the major structural problems facing the recipients while recognizing that the resources provided in support of the adjustment effort are modest.

However, we have been critical of aspects of individual programs, and I must record our concern that trade liberalization has not featured more highly in the list of priorities for structural reform.

Many of the arrangements that remain to be negotiated involve countries with unusually difficult problems of one kind or another. We do not suggest any particular blueprint for conditionality: the countries and their problems are too diverse for that. But we do expect members using the resources of the facility to implement programs of reform which will address their longer-term balance of payments difficulties with strong and timely policy measures.

On medium-term balances of payments viability, an issue closely related to the appropriate level of conditionality, I can broadly endorse the remarks made by the staff on this issue on page 26 of EBS/87/46. There must be clear prospects of timely repayment, but the staff correctly says that the longer maturity of loans as well as their lower cost allows a more positive view than would be the case in respect of use of the Fund's resources under a stand-by arrangement in a similar case.

I can also agree with the staff that no particular number of benchmarks can be considered optimal. However, quantified benchmarks should normally be quarterly, and structural benchmarks should state the actions in relation to which progress under the program would be assured.

Moreover, I must stress that where a structural adjustment arrangement alone is to serve as the basis for a Paris Club rescheduling, quantified quarterly benchmarks will normally be needed, together with a commitment from the authorities that discussions with the Fund would be triggered by nontechnical breaches of these benchmarks. This is not to say that a structural adjustment arrangement is just a stand-by arrangement in disguise. It is to say that the Paris Club must feel able to monitor the progress of any program on the basis of which rescheduling is being requested.

I welcome the less conservative attitude now clearly being taken by the staff on the size of the second-year loan. I can support the staff proposal that the second tranche of a structural adjustment arrangement be equivalent to 30 percent of quota.

For reasons advanced by the Director for the United Kingdom at the discussion of Bangladesh's request under the structural adjustment facility (EBM/87/23, 2/6/87), I am most reluctant to shorten the annual disbursement period to bring payments into line with what is regarded as the program period. I am not convinced that program years under arrangements have to coincide with, say, fiscal years any more than they do under a stand-by arrangement. And I see any significant degree of flexibility here opening us up to detailed consideration of a number of cases where there is room for argument over when the program began. Annual disbursements should be the normal rule.

Mrs. Ploix submitted the following statement for the record:

From the beginning, the evolution of the structural adjustment facility was an open and ongoing process.

In my authorities' view, the experience of the first year of the facility's operations is a mixed one: some very positive developments are balanced by more disappointing ones.

Among the positive aspects is a very valuable Fund-Bank collaboration. In most cases, the policy framework paper process has shown that differences of opinion between the two organizations were minor and that they could easily be resolved. This joint process has demonstrated that the two institutions can agree on basic assumptions and forecasts for the member country and thereby speak with one voice. In addition, this cooperative effort has allowed the Bank to accelerate its procedures and to design structural adjustment loans more quickly.

In addition, the Fund is giving more consideration to the structural problems the developing countries are facing. Accordingly, the design of the first-year programs under the structural adjustment arrangement has been improved. Furthermore, stand-by arrangements--often agreed upon simultaneously with a structural adjustment arrangement--have been put in a needed medium-term perspective. This longer perspective induces the Fund to take better account of growth factors.

These are very fundamental results since they were basic objectives of the facility.

Nevertheless, these positive results are balanced by less favorable developments, namely:

- a generally poor participation of the country's authorities in the design of the policy framework paper and the structural adjustment program because most of the preparation is done in Washington.

- the excessive administrative and political burden placed on both the staff and the local authorities in negotiating the policy framework papers and the annual arrangements. This has several negative consequences: delays in reaching agreements, an undue burden on the scarce human resources of the country, a decrease in the attractiveness of the facility, and high costs. These elements are worrisome. For example, one year after the launching of the facility, only 20 percent of the eligible cases were reviewed by the Board. This shows that the facility is not as attractive for the beneficiary countries as was desired. As for the high costs, in January 1986 the administrative costs of the structural adjustment facility were estimated at around SDR 2.3 million for the Fund alone; the end result for financial year 1987 was SDR 5.6 million, which represents a 140 percent cost overrun. In view of this and the anticipated work load, will the costs to the Fund in financial year 1988 really be limited to the projected level of SDR 6.5 million? The present tendency to separate the discussion of the policy framework paper from that of the structural adjustment arrangement can only add to these negative aspects.

My final comment is one of disappointment: the policy framework papers were supposed to draw additional resources from bilateral and multilateral donors. Unfortunately, the donors have failed to consider the policy framework papers and have not increased their assistance through this mechanism. Moreover, several times the existence of the structural adjustment facility has been used to justify limiting the Fund's involvement.

Our decision on the future developments of the facility must draw on this experience. We are clearly at a crossroads and must choose between two very different avenues. The first consists in sticking to the original design of the structural adjustment facility. The other would include, in the design of the structural adjustment facility, procedures which seem to be called for by some Directors or by the staff. Before reflecting on these alternatives, I would like to caution against adding to the procedures only with the hope that additional funds will be provided.

Directors agreed upon the first avenue when the facility was established last year. In his summing up of the March 26, 1986 meeting the Managing Director stated that:

> 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 delays. There was a strong emphasis on the need to make the resources available quickly and also to avoid excessive burdens on the Board, on the staff, and on the authorities.

I stated at that time that "our first priority remains the conclusion of a rapid agreement: it is indeed necessary that the amounts be available very quickly and, if possible for some part of them, before the end of the semester."

It was supposed that this approach would always be adopted in implementing this new concept and that "three features were closely interlinked": a comprehensive three-year policy framework paper, collaboration with the World Bank, and the policy framework/structural adjustment process being a catalyst for additional financial resources." The staff report recalls that "the size of structural adjustment facility loans was implicitly related to the amount of time and effort required to satisfy the procedural and substantive requirements of structural adjustment facility arrangements."

The second avenue would consist in further adding to the procedures along the lines proposed in the staff paper and recently done--for example, the separation of the discussions of the policy framework paper and the structural adjustment arrangement. The additional procedures would include reviews and rolling plans and thereby more conditionality.

My authorities do not see any reason for changing their opinion at this time. They continue to favor the first avenue and our answers to the questions raised in the staff paper will be derived from this.

As I mentioned earlier, the results of the first year are somewhat disappointing: they reveal what the staff calls "this lack of enthusiasm" for the facility because of the comparison between the extent of the conditionality and the administrative burden, and the modesty of the financing. The present practice is thus not a successful one. Therefore, our position is aimed at ensuring a flexible implementation of the structural adjustment facility. The procedures should be kept as simple and as rapid as possible. Thus, to avoid unnecessary delays, to minimize the political difficulties, and to reduce costs and burdens, we would like to see the staff return to the procedures as they were defined initially.

- On the collaboration between the Fund and the Bank, we do not ask for more formality and do not think that joint mission chiefs are important. As to schedules, it is crucial that missions not be delayed. However, it is important that full agreement between both institutions be secured on all major fronts. The cases when participation of the World Bank is impossible must remain the exception.

- On the criterion of "protracted balance of payments problems," we think that its determination should not be a rigid process nor should it be the result of mechanical computations.

- On the policy framework paper we agree that its main thrust should be more structural, focusing on long-term development, prospects for growth, prioritizing of major actions, and emphasizing the consequences on growth of various levels of financing. We favor its presentation simultaneously with the presentation of the first-year arrangement to the Board, as was clearly provided for in last year's summing up. Similarly, we would be satisfied with a simple update and a regular review of the policy framework paper at the time of the presentation of the second and third annual programs. This should not lead to extensive modifications of the policy framework paper. Furthermore, in the present circumstances, we are not prepared to support the idea of "rolling policy framework papers." Such an idea was clearly ruled out in last year's summing up--in most cases, only the annual program will have to be negotiated the second year; the policy framework paper will only need to be updated. Finally, we do not think it appropriate to include policy commitments for the three-year period--or the two remaining years--in the letter of intent.

- On reviews, we resist any review in addition to the current review of yearly tranches. Here we would appreciate a clarification by the staff of its intended use of "benchmarks" in the second- and third-year disbursements. As to the problem of timing alluded to in the staff report, it should be solved by flexibility in the dates of annual disbursements. On the issue of timing, I would like to add that I do not see why what is considered as possible in the first year of the structural adjustment arrangement is impossible in the second or third year.

- On prior actions, we continue to support the wording of last year's summing up: "prior actions have to be envisaged only if necessary for the annual program to be credible and workable."

- On the second-year access limit, we support the staff's proposal that second-year disbursements be raised to 30 percent of quota.

Let me finally briefly comment on three issues linked to additional financing in the present context:

First, as long as there is no real increase in the resources for the structural adjustment facility, my authorities strongly disagree with substituting structural adjustment arrangements for stand-by arrangements. Such a substitution would further reduce the Fund's involvement in the poorest countries. In this respect, we would like the staff to tell us what criteria it uses to direct a country's request toward a stand-by arrangement, an arrangement under the structural adjustment facility together with a stand-by arrangement, or an arrangement under the structural adjustment facility alone, the latter case becoming more frequent.

Second, Fund-Bank collaboration is an important feature of the facility. However, this collaboration has not led to the expected financial involvement of the World Bank. We urge the World Bank to use the policy framework papers to set priorities in its lending program and to commit additional IDA credits as soon as possible to the countries involved.

Finally, our approach to the question of circulating policy framework papers is derived from our overall position. If the country agrees, we think that the papers can be circulated to potential bilateral donors. However, policy framework papers should not be communicated to institutions that are not interested in participating in the financing of the country involved.

In sum, my authorities' position could be reconsidered if some new developments were to take place; in fact, more substantial financing on concessional terms should, of course, imply an adjustment of the conditionality with a view to enhancing the credibility of the whole facility. In this regard, France strongly supported the Managing Director's proposal at the Venice summit, making clear its intention of bearing its full share of the enlargement of the facility. The necessary work and discussions on this additional financing on concessional terms must be carried out without delay so as to enable the Interim Committee to reach a decision at its next meeting. The operation could thus be finalized by the end of the year.

At that time it will be appropriate to review the facility's conditionality. More specifically, the question of a rolling policy framework paper should be examined, as it would be the natural outcome of the continuation of the facility after its first three years of operation.

I will conclude by raising a purely practical point which I have already mentioned to the staff: I feel strongly that in the future, in any table giving total outstanding Fund credit, country by country or globally, the reimbursements of Trust Fund loans should be integrated into the changes in the Fund's total exposure if structural adjustment facility loans are a part of it.

The Chairman observed that the Group of Ten countries represented only a part of the broad membership that he hoped would contribute to an enhanced facility.

Mr. El Kogali made the following statement:

The structural adjustment facility was launched in the hope of enabling the Fund to respond more effectively to the special needs of low-income countries. Many of these countries are to be found in sub-Saharan Africa, where economic problems remain serious. We are, therefore, pleased with the Managing Director's recent initiative to bring the plight of low-income countries to the forefront of the agenda of the international community, and with the decision of the Heads of State and of Government of the Group of Seven, at the Venice summit, to support the management's proposal to significantly increase the resources of the structural adjustment facility. This political commitment comes at an opportune time, as the Board seeks to improve the functioning of the facility.

The staff has been candid in raising several key issues in its background paper. I propose to deal with four broad topics: the enhancement of the facility and its expanded role, procedural matters, program design and conditionality, and matters relating to access.

It is clear that programs under the structural adjustment arrangements have not been accompanied by the flow of additional finances from bilateral and multilateral sources envisaged when the facility was established. The proposed enhancement, which is being supported by major donor countries, is therefore a step in the right direction. In this connection, two points need to be raised.

First, in adopting the modalities for the operation of the enhanced structural adjustment facility, due attention should be given to the overall indebtedness of low-income countries to the Fund. Although loans from the facility are concessional, their overall term structure does not compare with, say, loans from IDA. We believe that further concessionality should be given serious consideration in respect of the additional resources through, for example, the extension of the maturity period.

Second, there is an indication that policy framework papers should become the focal point of all financial assistance to eligible countries, including direct project loans and grants.

The policy framework papers are expected to be used as "steering briefs" by lending agencies. While there is merit in using these papers to promote aid coordination, there is the danger that they might be taken as an elixir for all developmental and structural problems that a country could be facing. This implies that the Fund would also be providing a stamp of approval for all financial assistance to low-income countries. Obviously, this is not what is intended and, therefore, we would expect a clear delineation of the areas of the Fund's competence in the medium-term structural adjustment process, especially where emphasis is to be placed on growth and development. Aid coordination should continue to be undertaken bilaterally or through the World Bank, which has already gained valuable experience in the areas of cofinancing and in organizing consultative group meetings. In that connection, policy framework papers should be adopted by the World Bank as necessary inputs.

The concern about the inadequate provision for growth in structural adjustment supported programs has been stated on a number of occasions. We believe that programs should be designed to target for, at least, some expansion in per capita incomes if the authorities are going to feel confident in promoting adjustment. After all, the improvement of the standard of living for its people constitutes the main business of these governments. Programs need to be integrated with national development plans and consistent with national priorities. In this context we would like to reiterate our position that long-term growth should be the focus of structural adjustment programs. It is therefore important that the policy framework paper should specify the sources of growth, including a clear indication of investment expenditure, import requirements, and financing. The need for growth orientation may even require that some level of financial imbalances be accommodated in the interim period.

Our experience with the facility has confirmed many of our fears regarding the level of conditionality which, in our view, has been somewhat excessive. Furthermore, conditionality has not been reoriented toward capturing developments in the real sector. My authorities have been concerned about the proliferation of benchmarks. Although these are not taken as triggers for disbursements, the authorities are required to monitor developments closely to avoid deviations which could undermine drawings in the second year. In this sense, individual benchmarks are the relevant variables in monitoring progress. Furthermore, when there is multiplicity of benchmarks it is not clear whether some instruments could be acting in the opposite direction of adjustment. Indeed, depending on the forces of the trade-offs, the situation could worsen instead of improving. In designing these programs, therefore, a critical path should be delineated to isolate only a few instruments that would foster needed adjustment. Benchmarks chosen for monitoring performance should focus on a few growth-related variables and should be monitored in a flexible manner.

The staff paper concedes that expeditious implementation of the decision establishing the facility was hampered by substantial new groundwork that had to be elaborated upon and adopted as new procedures. Perhaps this reflects the significant departure from the spirit and simplicity of the Trust Fund that we had hoped would remain in vogue. Structural adjustment programs appear to be an amalgam of the traditional stand-by arrangement, the extended Fund facility, and the structural adjustment loan facility in the World Bank. Even though the procedures have become more transparent with experience, doubts remain as to whether the pace of putting together programs under structural adjustment arrangements will increase. The major problem appears to be the wider agenda that is being covered in the preparation of a policy framework paper, and the elaborate consultations that have taken place between the Fund and the World Bank, especially where there are differences of view. There is also the question of the time needed for the authorities to muster the political support for the comprehensive adjustment measures that a structural adjustment program entails.

A more important matter is the minimal involvement of the authorities in the preparation of policy framework papers. Their role has been restricted mainly to the final negotiations based upon a highly refined document. Although it is claimed that some of the elements in the policy framework papers are directly extracted from official sources of the country concerned, it is nonetheless true that the papers are materially different from a negotiated document and acquire a measure of rigidity through the process of refinement. In that regard, it is likely that the authorities could view policy framework papers as blueprints of the Fund which they must endorse in order to make use of structural adjustment facility resources. The policy framework paper was envisaged to be the product of full involvement of the authorities. As stated in the Chairman's summing up of March 26, 1986, "The policy framework paper is to be developed in close collaboration with the authorities--who are after all responsible for policy formulation...."

If preparation and analysis of policy framework papers is to proceed in this fashion, it would be grossly unfair to attribute the responsibility for failure entirely to the authorities' lack of commitment to the adjustment process. We strongly suggest that the authorities be encouraged to produce the original drafts of policy framework papers themselves and that the role of the Bank and the Fund should be to check on feasibility, consistency, and possible improvement. This would allow the Fund to consider the issues together with the authorities and to make judgments on the feasibility of implementing particular measures.

Another issue of concern is the role of the World Bank, which has hitherto been peripheral. It is important that cooperation be increased with a view to striking a better balance in the treatment of issues in the policy framework paper, particularly as they relate to issues of growth and development. Also, there is need to clarify what happens when the Executive Directors of the World Bank approve a policy framework paper that the Fund Board finds unacceptable.

One particular case has been cited by the staff where the World Bank involvement is absent in a country that is eligible to draw on the structural adjustment facility resources. The absence of the Bank should not prevent the Fund from assisting a member if the member is prepared to undertake adjustment measures. To require Bank involvement in such situations would be tantamount to cross-conditionality, and this is something that should be avoided.

As regards the circulation of policy framework papers, we do not have any serious objections to the procedures being proposed by the staff. However, it should be stressed that the final authority to go ahead with the release of the documents should still rest with the authorities in consultation with the Executive Director concerned. In the past, we have not experienced any serious difficulties in processing the release of other documents, like background papers on recent economic developments, whenever lending agencies or other organizations have requested them. In adopting these procedures we see a lot of merit in the proposal to separate the staff report containing policy actions and the actual request for use of structural adjustment facility resources from the policy framework paper. This implies that policy framework papers should concentrate on identification and an in-depth analysis of macroeconomic and structural problems and the broad thrust of the adjustment process as suggested by the staff.

The question of access for countries in arrears to the Fund has not received adequate consideration. Under existing policies, a number of countries eligible to use the facility, and perhaps the most needy ones, will not be able to benefit from the increased level of structural adjustment facility resources because of overdue obligations to the Fund. The facility will not achieve its objective in assisting many low-income countries unless modalities are worked out to resolve the issue of overdue obligations. Such modalities should be integrated into the evolving strategy aimed at reducing the debt burden of low-income countries. Mr. Nimatallah's proposal that policy framework papers be prepared for countries in arrears could be helpful in developing strategies to help them normalize relations with the Fund.

In summary, we would like to stress the following points:

- that additional resources under the enhanced structural adjustment facility should be extended on more concessional terms by, among others, extending the maturity period.

- that there should be a clear delineation of the role of the Fund in assisting low-income countries pursuing medium-term adjustment programs. The structural adjustment facility cannot be taken as the focal point of development, assuming the role of other institutions such as the World Bank and regional development banks. However, we recognize that the policy framework paper should be taken as a major instrument for promoting adjustment with growth and for mobilizing external assistance.

- that growth should remain the key element of programs under the structural adjustment facility and perhaps, at the minimum, these programs should aim at preventing further declines in per capita income.

- that conditionality should be reoriented both to the realities of specific countries and to the objective of achieving sustained growth. In that connection, benchmarks should be simplified and limited to a few growth-related variables.

- that procedures should be simplified and authorities be fully involved at an early stage of preparation of the policy framework paper. Programs should be integrated with national development plans and the national priorities of the authorities should be recognized. This means that policy framework papers will of necessity be different in structure and should not be standardized.

- that specific modalities should be adopted to facilitate access by those members who still maintain overdue financial obligations to the Fund with a view to normalizing relations with the Fund.

Commenting on some of the issues raised by Mr. Dallara as well as other Directors, Mr. El Kogali remarked that for policy framework papers to have a wider circulation without raising concerns regarding confidentiality, they should mainly focus on an in-depth diagnosis of macroeconomic and structural problems and possible solutions. Specific policy commitments should not be covered in the papers, but should be addressed in the annual programs. Many eligible countries might find it difficult to spell out specific policy commitments in a widely circulated document. They might also find it difficult to spell out specific policy commitments covering a three-year period: in practice, changing circumstances might make it technically difficult to specify policy actions.

Mr. Dallara's suggestion that annual disbursements be made in the middle of the annual program rather than at the time of the approval of the program, when the program year did not coincide with the authorities' budget cycle, would effectively make most of the measures under a structural adjustment arrangement prior actions, something that he could not support, Mr. El Kogali continued. Disbursements should be made when the program was approved, even if doing so resulted in some shortening of the period between the first- and second-year tranches.

He was concerned about Mr. Dallara's proposal to reduce the access of eligible countries that had not negotiated an arrangement by the time of the next review of the facility or to remove them from the list of eligible members, Mr. El Kogali commented. It was important to find out why some countries were unable to benefit from the resources available under the facility as quickly as desired. The appropriate approach in such cases would be to address the difficulties and concerns of those countries rather than force them to make a decision by threatening to cut them off from Fund assistance. Reducing or denying access to the facility would be most unfortunate and counterproductive.

It was also suggested that the staff should develop a uniform format for policy framework papers, Mr. El Kogali noted. He doubted that national development plans and objectives would fall into a predetermined format. Those papers should reflect the particular conditions prevailing in the country and the authorities' priorities. He did not favor adopting a uniform format.

As for reviews, structural adjustment arrangements should not become a euphemism for the traditional stand-by arrangement, Mr. El Kogali remarked. That could happen if programs contained quantified quarterly benchmarks and commitments that, if not adhered to, would automatically call for consultation between the authorities and the Fund.

On the issue raised by Mr. Lankester concerning the role of bilateral donors in the preparation of policy framework papers, he had two concerns, Mr. El Kogali noted. First, too much emphasis on the diverse interests of donors could complicate the preparation of the papers. Second, donor participation might give the impression that the authorities were being asked to implement policy prescriptions imposed from the outside.

He agreed with many of the views expressed by Mrs. Ploix, particularly with regard to policy framework papers, the use of benchmarks, prior actions, and substituting structural adjustment programs for stand-by arrangements, Mr. El Kogali added. He also shared Mr. Nimatallah's views on preparing policy framework papers whenever an opportunity arose, so as to reduce the cost of administering the facility.

Mr. Nimatallah remarked that he hoped that consideration of Mr. Dallara's suggestion to reduce access for members that had not initiated requests under the facility in order to increase the access available to those that had expressed an interest in a loan would be delayed until more was known about why some countries were not utilizing the facility.

He welcomed Mr. Dallara's suggestion that in the near future the Fund should invite representatives of development and aid agencies to Washington for a conference to familiarize them with the facility and the policy framework process, Mr. Nimatallah added.

Ms. Bush observed that the suggestion regarding access to the facility reflected two concerns: the limited amount of available resources and the need to encourage members to implement, at an early stage, broad-ranging adjustment programs that were envisaged when the facility was created. Her chair was certainly open to other ideas on that issue.

The suggestion that a uniform format be developed for structural adjustment arrangements did not encompass the substantive content of arrangements, Ms. Bush explained. However, the documents that comprised the arrangement could be standardized and made easier to use. That was a technical matter that could be taken up with the Legal Department.

Mr. Goos made the following statement:

> On the role of policy framework papers, I agree with previous speakers that, in view of the limited experience with that instrument so far, it would be premature to introduce major changes or refinements into the policy framework/structural adjustment arrangement process. The failure of bilateral creditors and donors to support that process through additional financing is certainly disappointing. However, the usefulness of the exercise clearly goes beyond the mere mobilization of additional resources. Policy framework papers are important instruments in their own right because they provide eligible countries with the opportunity to develop a comprehensive framework of macroeconomic and structural adjustment policies. The design of this framework may appear cumbersome and costly, but the costs involved can be fully justified by the mere prospect of the substantial economic improvements that are likely to flow from the coordinated input of Fund and Bank expertise. In any event, the potential returns on the use of additional staff and country resources appeared highly uncertain, particularly in terms of the objective of mobilizing additional financial contributions.
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> The realization of that objective hinges on the demonstration that the policy framework/structural adjustment arrangement process is effective in producing early and visible improvements in economic performance and that the process is founded on an unambiguous commitment to adjust. These requirements are undoubtedly of immediate relevance to the policy content and specificity of policy framework papers and structural adjustment arrangements. They also underline the importance of the close involvement of the member's authorities in the formulation of the paper.

I can associate myself with the thrust of Mr. Dallara's observations on more specific aspects regarding the role of policy framework papers. However, with respect to steering briefs, the formulation of those papers without World Bank participation, and the staged approach to developing the papers, there is a need for flexibility as outlined in the staff paper in order to accommodate special circumstances. In cases in which the policy framework paper would not cover the more specific policy commitments so as to permit its wider circulation, those commitments could be spelled out in the letter of intent. Mr. Lankester's proposal to take more account of bilateral donors' requirements in the formulation of papers appears worthy of serious consideration, including the idea of incorporating the public investment plans into the policy framework paper. However, the direct involvement of bilateral donors in the policy framework process should clearly be exceptional.

We have an open mind regarding the time horizon of policy framework papers. We would prefer, however, to gather further evidence on the costs and potential benefits of a rolling framework.

On the issues of conditionality and program design, again I can associate myself with the views expressed by Mr. Dallara, except that for the time being I am not convinced of the advisability of introducing explicit reviews for program monitoring. Apart from that, I endorse the staff's observations regarding the relationship between the structural adjustment facility and other Fund facilities, including the relationship between performance criteria in stand-by arrangements and benchmarks in cases where structural adjustment arrangements are associated with stand-by arrangements. Moreover, I share the view that, in general, benchmarks should be quantified and limited to a selected number of key variables.

As regards the second-year access limit, we would prefer the more cautious option, of raising the limit to 25 percent of quota.

On the issue of the balance of payments criterion, I agree with the views expressed by Mrs. Ploix.

On the timing of policy framework papers and structural adjustment arrangement negotiations and discussions, like Mr. Lankester and others, I feel that the one-step approach is the desirable norm.

Regarding the issue of structural adjustment program and disbursement periods, we agree that the effective program period should cover at least nine months. On an exceptional basis--for example, in the cases mentioned by the staff--a one-time shortening of the disbursement period would be acceptable to adjust the arrangement period to the program year.

In concluding, I would like to welcome the Managing Director's initiative to enhance the resources under the facility. My authorities are, of course, sympathetic to this move. Although a host of intricate questions remain to be resolved, it is already clear that the mobilization of additional resources would have to take place in a multilateral framework with individual contributions based on the relative economic strength of the participating countries. By contrast, other allocative criteria--such as the relative strength of budgetary or balance of payments positions--that reflect in the first instance differences in the resolve and success in the pursuit of sound economic policies would appear to be an inappropriate basis for the necessary cooperative approach.

The Chairman remarked that he welcomed Mr. Goos's comments concerning the mobilization of additional resources and allocative criteria. To facilitate a rapid conclusion of negotiations on an enhanced facility, emphasis should be placed on what contributors could do for eligible countries rather than what might be indicated by some mechanistic determination of potential contributions.

Mr. Reddy made the following statement:

Our experience with the structural adjustment facility is somewhat limited, in terms of time, the number of members that have used the facility, and the amount of resources that has been committed.

The relatively small size of the resources of the facility compared to the needs of the eligible countries is indeed striking. Structural adjustment arrangements have been too ambitious as far as program design is concerned, and they have not been backed by adequate resources. I therefore welcome the commitment of the industrial countries to augment the facility's resources so that meaningful growth-oriented adjustment programs can be adopted in the eligible countries, without in any way increasing the immediate debt servicing problems of these countries.

At the time the facility was established, it was envisaged that requests for the use of its resources would be processed without delay and that disbursements would be made quickly. Unfortunately, the experience so far is disappointing, since only 12 members, representing 24 percent of the quotas of eligible countries, have received assistance under the facility. I believe that it would be appropriate for management to see to it that negotiations on structural adjustment arrangements with as many members as possible are expedited. In this context, I agree with Mr. Nimatallah's suggestion that work on policy framework papers could begin even before a request for structural adjustment assistance is received. I am also disappointed that most structural adjustment arrangements have been associated with stand-by arrangements. I would like to see more cases of structural adjustment arrangements alone, and I hope that a move in this direction will receive some impetus from the augmentation of the facility's resources. I would also prefer that the negotiation of the structural adjustment arrangement and its submission to the Board should be a one-step process whereby the policy framework paper and the request for a structural adjustment arrangement are presented simultaneously. This would save considerable time for the authorities, the staff, and the Board.

On the second-year access limit under the facility, this chair can support the staff proposal for raising second-year disbursements to 30 percent of quota. In determining access under the facility, it would be more realistic to assume that some eligible members will not be interested in using the facility's resources while some others will not be able to meet the necessary conditions to qualify for use of the facility's resources.

Since the size of structural adjustment arrangements in support of loans have been small and will remain so in the near future, it is of paramount importance that substantial bilateral and multilateral resources be associated with the use of the facility's resources. Unfortunately, the experience to date with the catalytic role of the facility has been disappointing. According to the staff, it is unlikely that additional bilateral resources will be forthcoming either through direct association with the structural adjustment arrangement programs supported by or through parallel program aid operations. Similarly, the staff reports that in its discussions with donor countries there was no support for the direct association of additional resources with loans from the structural adjustment facility. Hence, the facility so far has been ineffective in mobilizing additional resources. The facility can play an effective catalytic role if there is a substantial resource commitment to it from the Fund, and, in that context, the proposed augmentation of structural adjustment facility resources could play a crucial role.

On conditionality and program design, I share the staff's belief that the facility's resources should be used in support of strong growth-oriented adjustment programs. Unfortunately, there is little evidence that structural adjustment arrangements have led to higher rates of growth so far, although in the longer term higher growth rates may be achieved if structural adjustment loans from the facility are associated with higher levels of resource flows. It does appear to me that policy initiatives and reforms required under structural adjustment arrangements are more stringent and wide ranging than those required for drawings in the upper credit tranches under stand-by arrangements. While I am not opposed to conditionality, I nonetheless believe that structural adjustment arrangements should be backed by adequate resource flows, and it seems to me that we are now moving in the right direction.

The staff states in its paper that if either the Fund or the World Bank was not prepared to engage in discussions on the policy framework paper with an eligible country--for whatever reasons--then the negotiations for a structural adjustment arrangement may also not take place. In other words, there can be no policy framework paper or structural adjustment arrangement without World Bank involvement. The World Bank has no operational relationship with one country in my constituency at this time for political reasons. Does that mean that this particular country cannot have a structural adjustment arrangement? In this instance, I am informed that management has already given a commitment to the country that the Fund will process the request without World Bank involvement once the member becomes current in its overdue obligations to the Fund. Thus, it would appear that the involvement of the World Bank's staff or its Executive Board is not essential to approval of a structural adjustment arrangement. In view of this development, I would like to hear the staff's current position on this matter.

Finally, any distribution of policy framework papers should be done with the express agreement of the authorities so as to avoid any misunderstanding.

Mr. Lundstrom made the following statement:

My constituency fully shares management's view of the structural adjustment facility as a crucially important instrument in dealing with the problem of growth-oriented adjustment in low-income countries with unsustainable debt burdens and protracted balance of payments difficulties. In fact, for many of these countries the structural adjustment facility is the only appropriate instrument at the Fund's disposal for support of adjustment programs. At the same time, it has become increasingly evident that the facility's present resources fall widely short of what is needed to meet even the most urgent requirements. The Managing Director's initiative for a trebling of these resources is therefore very timely and pertinent. The reference to the facility in the Venice Economic Declaration is most encouraging and an achievement in itself that should be commended.

But this is only the beginning of what is clearly going to be an uphill fight. The Nordic chair will fully support this endeavor. As for possible Nordic contributions, no decisions have yet been taken. They will have to await more precise information on modalities and on other countries' participation.

The issues raised by management and the staff paper at the Informal Session on June 12, 1987, will have to be considered carefully in the period ahead. In view of the emphasis on the urgency of moving forward quickly, let me make a few preliminary--and partly personal--remarks.

On the question of the amounts of additional resources needed, the Managing Director's statement that SDR 6 billion of concessional resources could be efficiently used over the next three years is important. I do not think that anybody would contest it. And I wonder whether the same statement could be made with equal assurance about alternative uses of resources--externally or domestically.

While increasing the resources of the structural adjustment facility is of primary importance, the availability of other resources, bilateral and multilateral, has of course also to be taken into consideration in ensuring the genuine additionality of the facility's resources. Here, the $3-3.5 billion under IDA-8 earmarked for structural lending in conjunction with the facility are of particular importance. In this context, the hope should be expressed that additional resources for the structural adjustment facility mean a real net addition to the total resources channeled to the countries concerned.

On the terms of contributions, I agree that the concessionality of loans under an enhanced facility should be the same as that of the existing facility and that it would be preferable to make the terms of associated loans the same as those on loans from the structural adjustment facility. The obvious implication is that the additional resources will have to hold the same average grant element as the resources of the existing structural adjustment facility. But this does not necessarily mean that each contribution has to be equally concessional. Allowance should be made for possible trade-offs between volume and concessionality. Some countries may find it easier to contribute large amounts with low concessionality, others relatively smaller amounts with higher concessionality. I am therefore glad to note from the staff paper that efforts will be made to meet particular institutional requirements of individual contributors. The overriding objective should be to attain the target level of SDR 6 billion in additional resources, even if this should require substantial accommodations to individual preferences.

The question of the amounts of resources to be made available by each contributing country is obviously a difficult one. Flexibility will be needed. Perhaps I may add that, since we are talking of a Fund facility, a certain correspondence between relative contributions and relative quota shares would seem natural. That should not exclude other factors from being taken into consideration. In this connection, it is interesting to note that the Venice Declaration makes explicit reference to the 0.7 percent ODA/GNP target. In the same context, and "in the light of the different contributions of our countries to official development assistance," the Declaration welcomes the recent Japanese scheme to increase the provision of resources from Japan to developing countries. It is difficult to avoid the general conclusion that the financial participation of each country will have to be seen in the light of not only its general economic strength but also its current account position and its ODA/GNP performance.

The modalities suggested for the provision of additional resources--loans and grants to a trust account administered by the Fund and parallel bilateral lending directly to countries eligible to use the structural adjustment facility--will of course have to be worked out in detail. But it could be said already now that they would both seem to be useful approaches to the complex issue of appropriate financial arrangements. My authorities are prepared to study different forms and modalities for the provision of additional resources, such as combinations of market related loans and outright grants, with an open mind. But they have already indicated a strongly skeptical attitude to the idea of a sale of Fund gold holdings as a way of mobilizing additional resources.

The question of differentiated access to the augmented resources--or rather to the amount with which the resources are augmented--is a sensitive one. But I am personally inclined to agree that there is a case for some differentiation and that such differentiation could appropriately be based on assessments of individual countries' needs and of the strength of their policies. The latter consideration is important also to enhance the prospects for positive responses to the call for contributions.

I turn now to the review of the policy framework/structural adjustment process. First, with regard to the role of the framework papers, I share Mr. Dallara's view that this collaborative approach, "remains the key to our efforts to support low-income members." At the same time, it should be recognized that the complex process of preparing policy framework papers and the limited use made of them by the World Bank and bilateral aid agencies are causes of concern and even frustration, as is clearly brought out by Mrs. Ploix and Mr. Lankester. In my view such shortcomings are a reason for making the process more effective rather than for questioning the policy framework approach as such. In this regard I can go along with most of the suggestions made by Mr. Dallara. In particular, I subscribe to his call for steps to increase the involvement of the authorities concerned in the process.

More generally, however, there is no need for any major modification of the policy framework/structural adjustment process. My authorities wish to await next year's review before taking a final stand on the use of Special Disbursement Account resources after 1991 and on the future role of policy framework papers.

The primary role of policy framework papers should be to foster a consistent Fund and Bank analysis of a country's economic problems and, by the same token, to provide guidance to bilateral aid agencies and multilateral aid consortia. It would seem less desirable generally to integrate bilateral assistance with the policy framework/structural adjustment process.

Regarding the general content and character of the policy framework papers, they should be focused on macroeconomic and structural problems and on the growth strategy, while policy commitments should be kept apart. This may make it easier to involve the authorities concerned more fully in the process without unduly delaying it.

As a guiding principle, policy framework papers should aim at comprehensive analysis. However, as we think there is much to be said for making the resources of the structural adjustment facility available quickly, a staged approach in preparing the policy framework papers might be used, when appropriate. While we are pleased that growth prospects and supply-side factors have been given considerable weight in the policy framework papers, we feel that a certain restraint will have to be applied with regard to longer-term development strategy issues. Although we consider it important that the policy framework papers should be used by bilateral aid agencies, we think that the formulation of them should continue to be the task of the authorities concerned assisted by the Fund and the Bank.

We have some doubts as to the wisdom of including specific policy commitments for a three-year period in letters of intent. A better place for such commitments would seem to be the yearly programs.

We find conditionality in programs supported by structural adjustment arrangements broadly appropriate. It is too early to judge whether the programs have been sufficiently strong to clear the way for adequate growth. In most cases, the structural adjustment arrangement has been reinforced by a stand-by arrangement. In general, however, the Fund's support of the poorest countries with serious debt problems should primarily take the form of loans from the facility and policy advice.

There is no doubt that the policy framework paper process has been instrumental in improving further Fund/Bank collaboration. Obviously, however, the Bank's involvement in that process and its use of policy framework papers leave much to be desired. As pointed out in the main paper, "there are as yet no identifiable links between the preparation of policy framework papers and the Bank's policy based lending." It would seem appropriate that this problem be considered not only by the Fund Board but also by the Bank Board.

Let me make a few brief final remarks.

First, in light of the staff's review, we support the proposal to increase the total amount of access for structural adjustment facility loans for the second year to at least 20 percent of quota.

Second, we think the Fund should continue to be flexible in its interpretation of the "protracted balance of payments problems" criterion.

Third, we are in broad agreement with the staff paper as far as benchmarks are concerned. They should be formulated in fairly specific terms and be limited to a few variables in key areas.

Fourth, the suggested rolling three-year framework could foster longer time horizons in policy planning, which may improve policy consistency and make the policy framework papers more useful for aid donors. Caution should be exercised, however, in order not to end up with too cumbersome a process. And a final decision need not be taken until the 1988 review.

Fifth, we accept the transmittal procedures proposed in the supplementary paper, provided that the policy framework papers are focused as suggested and given as common a format as possible.

Finally, we support the staff's view that there should be some flexibility in the interval between annual disbursements, although alignment of policy framework papers and annual structural adjustment facility programs with the budget cycle should generally be aimed at.

To conclude, there is an obvious link between the structural adjustment arrangement/policy framework process and the amounts involved. The smaller the latter, the stronger--and the more valid--the objections against the complexities of the former. Those who believe that the policy framework papers should be improved upon rather than be reduced to a minimum could therefore be expected to support the structural adjustment facility enhancement initiative. Clearly, both improving the structural adjustment/policy framework process and augmenting resources of the structural adjustment facility will meet with difficulties. But I see no more realistic and adequate way for the Fund to address the problems of low-income countries. And I see no possibility for the Fund to shun these problems.

Mr. Yamazaki remarked that he appreciated Mr. Lundstrom's comments on the recent Japanese initiative to recycle $20 billion to developing countries. He wished to clarify that that initiative was completely different from the Managing Director's proposal to enhance the resources of the structural adjustment facility.

Mr. Finaish made the following statement:

When the structural adjustment facility was established in March 1986, it was widely recognized that a number of the low-income countries eligible for IDA resources face protracted balance of payments problems and that additional concessional balance of payments assistance should be provided to them. Structural adjustment facility loans were to be made to eligible members that present medium-term macroeconomic and structural adjustment programs designed to overcome balance of payments problems and foster growth. It was the consensus of the Board that the procedures for the loans should be kept pragmatic and flexible so that complications, rigidities, and undue delays are avoided. Today's discussion allows us to review the progress achieved thus far in designing and implementing adjustment programs supported by the facility's resources, the speed of use of those resources, and the association of bilateral aid resources with the structural adjustment/policy framework process.

The staff has discussed a number of issues relating to the policy framework papers, including the usefulness of the papers in providing an agreed medium-term context for the adjustment lending under IDA and the structural adjustment facility, the role for the papers in the broader bilateral aid mobilization and coordination process, and the relationship between the papers and the three-year structural adjustment programs. The staff noted that a more ambitious role could be envisaged for the policy framework paper, if it would encourage greater association of resources with the structural adjustment/policy framework process. According to the staff, "It must be recognized, however, that by all indications, developing the modalities for a closer involvement of major bilateral donors in the policy framework process to help mobilize additional bilateral resources is likely to take substantial time with very uncertain returns." Such an enhanced role for the policy framework paper would not only cause delays in the disbursement of funds to many low-income countries which need them urgently, but also give the policy framework process an air of permanence in the aid coordination process, as the staff indicates, which goes beyond the limited time horizon of the facility as now structured. This also has implications for other users of Fund resources because one must take into account the possibility that the policy framework process may be generalized. Above and beyond these considerations, is it prudent or realistic that low-income countries' chances of obtaining assistance from institutions and bilateral donors should hinge on a single instrument? An enhanced role for the papers becomes all the more worrisome when, according to the staff paper, "the authorities' input into the papers appears to have been limited in part because of the practice of the two staffs of preparing a fairly refined draft at headquarters prior to negotiations."

If the domestic authorites are, after all, responsible for policy formulation, as was noted in the Chairman's summing up of the Board's discussion on March 26, 1986, then there can be no question that their input into the policy framework papers has to be more than limited. Before we consider the possibility of enlarging the role of the papers so as to give the bilateral donors an opportunity at an early stage to have an input into the policy framework process, we must ensure a substantially greater participation by the authorities in the formulation of the papers. On the one hand, we have countries that are facing protracted balance of payments problems and are expected to restructure their economies by undertaking major reforms in trade policy, resource mobilization, price regulation, control of government expenditures, among others, yet their input into the document describing the broad policy objectives is limited. On the other hand, we have the donor countries who are requesting greater participation in the policy framework process, even though the staff has informed us that there have apparently been no bilateral resources associated with the policy framework/ structural adjustment process, either directly or indirectly, except in three cases, and even in these exceptional cases, the association was vague and the amounts involved were small.

The policy framework paper should avoid precise quantitative definitions of objectives and policies; otherwise, it would be difficult to ensure the flexibility required for adapting to changing circumstances during the annual programs. This is not meant to imply that the policy framework paper should not be comprehensive, but rather to emphasize that it should focus on the analysis of economic problems and prospects in a medium-term framework, on overall policy objectives, and on the estimation of financing requirements. By discussing the country's overall objectives and the consistency of policy actions in broad terms, it would help to differentiate the policy framework paper from the three annual structural adjustment programs. In this respect, we endorse the staff's suggestion that, in the future, the letter of intent should include more detailed discussion of specific policy commitments for the three-year period in a number of key areas under the Fund's competence. In addition to helping differentiate the two products more clearly, it would also help to avoid overlapping between the content of policy frameworks and the provisions of Fund structural adjustment facility and World Bank lending programs.

Although Fund-Bank collaboration is valuable in several respects, it is essential that the distinctive role of the two institutions be maintained if cross-conditionality is to be avoided. Investment-related financing by the Bank and balance of payments financing by the Fund should be based on the use of independent criteria by the two institutions. Furthermore, a successful performance under one institution's program should not be a condition for drawing under the program of the other institution. We agree with the staff that if Fund involvement with the member through the structural adjustment facility is deemed useful and appropriate, it should not be an absolute requirement that the Bank staff be involved in the preparation of policy framework papers. We can also endorse the staff's suggestion that there are good reasons for the program year to remain coincident with the policymaking period of the authorities, and that there should be some flexibility in the interval between annual disbursements.

With respect to qualification for and use of the facility's resources, the staff has noted that in a few cases, early discussions with the authorities on the potential use of these resources revealed that the existence of a protracted payments problem was not sufficiently apparent at the time, and the discussions did not proceed further. Perhaps the staff could elaborate, particularly with regard to the criteria used for determining the existence of a protracted balance of payments problem and whether or not the authorities were in agreement with the staff's assessment. Previous Board discussions have emphasized that the criterion of a protracted balance of payments problem should not be applied in a mechanical way, and that the determinants of the criterion would involve not only past and current developments, but also prospective developments in the balance of payments. In determining what constitutes a protracted balance of payments problem, it is important that underlying structural features of the economy are taken into account. Furthermore, when the analysis of balance of payments problems is both retrospective and prospective, one needs to look at indicators such as the diversity of the export base, the extent of import restrictions, and the degree of complementarity between domestic and imported factors of production. It must also be stressed that the manifestation of a protracted balance of payments problem might not be readily apparent in some cases. For example, if a country has a small current account deficit, this does not necessarily imply that there is no protracted balance of payments problem. The current account deficit is the sum of the excess of private sector investment over private sector saving and the fiscal deficit of the government. If the country has limited access to external borrowing, it is quite possible that the small current account deficit reflects a low investment rate rather than a high saving rate. It bears emphasis again that assessments made at one time would need to be reconsidered if and when a country's payments prospects undergo a change, and these countries should not be excluded from the use of the facility's resources.

On the issue of program monitoring and benchmarks, the staff appears to believe that benchmarks should be limited to a few variables that are considered most important for the purpose of monitoring the program. In this context, however, I have doubts concerning the staff's suggestion that benchmarks should be formulated in fairly specific terms and that it would be useful to provide a more explicit framework of structural reform in the three-year program by including selected benchmarks that extend beyond the annual program. In previous Board discussions, it was recognized that although the benchmarks were a useful means of providing indications on the pace of adjustment that was considered desirable from the point of view of both the country and the Fund, evaluation of economic performance against the benchmarks would be flexible so as to stress that benchmarks were points of reference rather than performance criteria.

The design, implementation, and monitoring of the programs supported by structural adjustment facility resources require flexibility and should take into account the individual circumstances of each country. The staff has noted that the authorities in some eligible countries have indicated that the programs advocated by the staff were inconsistent with the conditionality they expected to be associated with the use of the facility's resources. Some others have found that structural adjustment arrangement programs were somewhat difficult to negotiate because of the more detailed requirements on structural and other efficiency-oriented policies. It is clear that the kind of programs that are supported by the facility's resources is probably the most crucial element that will determine the nature of this facility and the future course of its utilization by eligible member countries. If the programs follow fairly closely the policy content of regular Fund-supported programs in the upper credit tranches, with added provisions for structural reforms, then an important question that has to be raised is whether, in practice, members that qualify for use of the facility's resources will in fact be members that essentially meet the conditionality requirements of regular upper credit tranche programs. In our view, the design and monitoring of structural adjustment programs should be such that they are acceptable to eligible users, which are low-income countries that urgently need these and other concessional resources. The emphasis in such programs is on structural measures, and the time period required for the formulation and implementation of structural measures is generally longer than that for demand-management measures. For these reasons, it is difficult to agree with the staff comment that structural adjustment facility loans could be combined with stand-by arrangements in the majority of cases. Furthermore, a number of low-income countries face severe debt-service burdens, and the terms of the structural adjustment facility are much better suited to their financing needs than those of the Fund's ordinary resources.

The staff is correct in arguing that the size of structural adjustment facility loans remains modest and that it is therefore of paramount importance that substantial bilateral and multilateral resources be associated with the policy framework/structural adjustment arrangement process. We also agree with the staff's conclusion that on the basis of the amounts available to the facility, prospective Trust Fund reflows, and the experience to date with commitments and disbursements, it should be possible to increase the amount of access for the second year of members' arrangements to 30 percent of quota. It must be emphasized, however, that bilateral donors are the principal creditors of the countries that are eligible for structural adjustment facility resources, and the success of the programs supported by the facility will depend not only on the design and implementation of these programs but also importantly on donor and creditor participation. In a difficult external environment, with historically low commodity prices and declining export receipts, many low-income countries can only surmount their structural problems over a longer period and with larger financial resources of a concessional nature. We welcome the decision adopted during the January 1987 Paris Club meetings to consider debt reschedulings on the basis of a structural adjustment arrangement program alone, and hope that serious consideration will also be given to improving the terms of debt rescheduling for the low-income countries.

In this regard, I wish to express my support for the Managing Director's timely initiative to enhance the resources available for adjustment programs supported by the structural adjustment facility. Considering the sharp decline in the terms of trade experienced by the developing countries, and to help sustain the process of domestic economic policy reform, greater priority ought to be attached to an increase in external assistance on concessional terms to these countries. It is vital that the industrial countries, particularly the major ones, increase substantially their aid and concessional lending to developing countries. The terms of trade loss of developing countries in the last few years has translated into an enormous transfer of income from the developing countries to the industrial world. In 1986 alone the income transfer amounted to more than $100 billion, largely owing to the sharp decline in oil prices, as documented in the most recent World Economic Outlook and the communiqué of the Interim Committee issued in April 1987. The endorsement provided for the enhancement of the facility's resources in paragraph 27 of the Venice Economic Declaration is encouraging, and one hopes that resources available to support growth-oriented programs in low-income countries will be increased and be in place as quickly as possible.

Mr. Hubloue made the following statement:

Before dealing with the issues raised in the staff paper, I wish to re-emphasize the central role of the structural adjustment facility in addressing the adjustment and growth problems of the low-income countries. The economies of these countries commonly suffer from a twofold constraint: their capacity for adjustment is small because they lack even the minimal economic resources and infrastructure for adjustment to act on, yet their ability to expand their domestic resource base through aid and development is hampered by the absence of stable economic conditions. For these countries, the pursuit of adjustment is inseparably entwined with the pursuit of development, and the adoption of growth-oriented adjustment is not merely one option among a number of possible policy choices.

By establishing the structural adjustment facility we have clearly chosen the right approach for addressing the interconnected growth and adjustment problems of the low-income countries in an appropriate framework. The constraints cited also illustrate the magnitude of the adjustment challenge confronting members eligible to use the facility, and the timeliness and importance of the Managing Director's initiative for matching their adjustment efforts with adequate resources. At the same time, it is also evident that the increased balance of payments support provided under an enhanced facility will in no way decrease the need to support the development process of these countries with a steady expansion of multilateral and bilateral aid flows. The risk that a certain "substitution effect" might occur is in our view very real and must be addressed with appropriate safeguards built into the modalities used for financing the enlargement of the facility. To this end, our chair will submit, over the next few days, some ideas about how the enlargement could be financed so as to preserve the character of the facility's balance of payments assistance. These ideas also attempt to accommodate the views expressed by Mr. Lundstrom on the need for differentiation and flexibility.

The issues raised by the staff and the statements of previous speakers indicate that reactions to the experience with policy framework papers are less than enthusiastic. Concerns about the too rigid standardization and too general nature of the papers seem especially relevant, and I agree with Mr. Lankester that more effort should be devoted to identifying each country's priorities for structural action: more ways should be explored to better reflect each country's needs and its desirable policy paths.

It is indispensable that the authorities should be involved more closely in the preparation of policy framework papers, since they are ultimately responsible for policy formulation. To facilitate this process, the papers could be discussed on the occasion of Article IV consultations, as suggested by Mr. Nimatallah, even if a structural adjustment arrangement has not been requested. These discussions should basically aim at a joint assessment of the country's adjustment and development needs and the formulation of a medium-term policy strategy that could be endorsed by the Boards of the World Bank and the Fund. This understanding on the desirable adjustment path should be complemented by the formulation of a clear investment strategy, and we encourage the Bank to assume a more active role in this context.

In sum, a policy framework paper should become a kind of "steering brief," much along the lines suggested by the staff, which the planning ministers of countries eligible to use the resources of the structural adjustment facility could employ actively in their negotiations with multilateral and bilateral agencies and from which more specific policy commitments could easily be derived. Developing the papers in this direction would not extend the Fund's competence beyond its proper responsibilities, as Mr. El Kogali seems to fear, nor would it run the risk of frustrating donor agencies' expectations--one of Mr. Dallara's concerns. The staff's clarification on the role of policy framework papers as steering briefs is reassuring in this respect. I would indeed expect that our insight into a country's adjustment and growth strategy would be better served by the presentation of a carefully selected set of priority actions than by a detailed list of specific but undifferentiated policy commitments. Finally, I support the idea of monitoring the formulation of medium-term strategy through the introduction of rolling three-year policy framework papers.

The World Bank's involvement in the structural adjustment facility process has also been somewhat disappointing. While I join Mrs. Ploix in welcoming the enhanced cooperation that has been achieved between the staffs of the two institutions, additional efforts are called for to extend this cooperation to a more active involvement of the Bank at policymaking levels. I agree with Mr. Dallara that we should continue to explore possible ways for the policy framework paper to play a more important role in guiding the Bank's policies, instead of yielding prematurely to tendencies to scale back the Bank's involvement in the whole structural adjustment facility process.

Clearly, the formulation of a clear investment strategy in the context of a policy framework paper is essential to establishing a more explicit link between the policymaking aspects of the paper and the Bank's lending activities. This exercise should be complemented by a frank assessment by the Bank's staff on the validity of the country's development strategy, which would serve as a basis for the Bank's Board to make a comprehensive judgment, in a manner similar to the way this Board functions with respect to balance of payments policies. In the end, however, it must be recognized that these efforts can produce effective results only if the discussion of the policy framework paper is associated with a sufficient flow of Bank lending, and in this context a rapid commitment of IDA-8 credits to support countries' growth-oriented policies is of crucial importance.

On other issues, I can support the increase in the access limit for second-year disbursements from 13.5 percent to 30 percent. On the protracted payments criterion, I fully subscribe to Mr. Lankester's view that low-income countries have an incipient balance of payments problem almost by definition; we should refrain from tightening that criterion. Finally, I see no need for any substantive change in the conditionality and monitoring of structural adjustment arrangements at this stage. Moreover, regardless of the final amounts generated to support such arrangements, the facility should always focus on the removal of those structural impediments which prevent a country from pursuing a balanced adjustment and growth path more amenable to support by external financing from other sources. The design and monitoring of structural adjustment arrangements should continue to serve this original objective.

Mr. Hospedales made the following statement:

The establishment of the structural adjustment facility was a modest response by the Fund to the need to help reverse the increasingly significant long-term economic decline of the vast majority of low-income countries.

The limited experience with the facility precludes our drawing firm conclusions regarding its actual performance; nevertheless, the evolution of important elements of this strategy should provide a fair indication of the likely success of the facility as originally contemplated. This review is, therefore, timely and appropriate, and the staff of the Fund and the Bank merit our appreciation for the substantial progress made in structuring a more clearly defined concept, the modalities of which we can now begin to strengthen so that the facility can meet the objectives for which it was created.

The modest size of, and access to, the facility's resources--47 percent of quota over three annual arrangements--made the success of the facility, as evidenced by the resumption of growth, crucially dependent on harnessing larger amounts of supporting concessional resources over longer periods. However, closer involvement of major bilateral donors in the adjustment process under the facility could be counterproductive and conceivably could slow down the processing of requests, which is inconsistent with the objective of making the resources quickly available to eligible countries. More stringent conditionality could also be an undesirable by-product of donor involvement, thereby restraining the speed of resource use. The Fund and the Bank should assume a catalytic role to generate additional resources only if the country so desires.

The adoption of a "staged approach" could speed up procedures and help to structure an internal political consensus on sensitive issues. Of course, the closer involvement of the authorities in this process cannot be overemphasized. In the initial stage, the policy framework paper could focus broadly on a few of the most important structural issues. Later on, the paper would be revised and could elaborate, but still on broad terms, other structural elements relevant to long-term development strategy issues for the later phases of the program. The structural adjustment program would at all times focus on specific policy commitments of the authorities. The staged approach could speed up preparation of the initial policy framework paper and allow for a wider circulation of both the initial paper and its subsequent revisions. Moreover, the avoidance of specific commitments in the paper would reconcile the need for confidentiality with repect to such commitments and the desire to widen the circulation of the paper to increase its usefulness in mobilizing additional resources.

To enhance resource utilization, the negotiation process for use of structural adjustment facility resources--whether based on initial policy framework paper discussions and a subsequent request for a structural adjustment arrangement or a combination of those should remain as practical and as flexible as possible. The present flexibility in the timing of Board presentations of annual structural adjustment arrangements should accordingly be preserved.

Further flexibility is desirable in Bank-Fund relations, notwithstanding the need for cooperation and consistency. The two institutions should bring to bear on the individual processes for the policy framework papers and structural adjustment arrangements their own expertise, mandate, and perspectives, thereby reducing interaction and eliminating cross-conditionality. Continuing flexibility in determining the existence of a protracted balance of payments problem and the possibility that the Fund could play a primary role in certain cases--when the Bank is not in a position to be involved--would further enhance the operational effectiveness of the facility. In any event, the appropriate Fund-Bank relationship should be a matter for the country itself.

The requirements of eligible countries with respect to future financing of growth and development exceed the magnitude of flows that have been forthcoming recently. Matching bilateral donor resources have not materialized as envisaged; neither has there been a real increase in the funding of IDA-8. An urgent need therefore exists to expand concessional flows to these countries. The proposed increase in access under the facility is a step in the right direction, and eligible countries should, at all times, retain their rights of access. We warmly welcome and support the Managing Director's recent initiatives to substantially increase the size of the facility to ensure genuine additionality of resources, and we look forward to an appropriate response by prospective contributors.

The short-term objectives of the stand-by arrangements that have been associated with structural adjustment arrangements are inconsistent with the requirements of structuring adjustment over a longer period, and the higher cost associated with the use of such resources is inconsistent with the need to provide highly concessional finance. If the objective is to provide additional resources, the structural maladjustments of these economies can more effectively be met with a concurrent extended arrangement. The creation of an interest subsidy account would make it possible to ensure concessionality.

The design of the structural adjustment facility and the monitoring procedures must be consistent with the facility's growth orientation. Yet, the staff insists that the focus should be on setting the correct policies rather than on growth targets per se. There is, therefore, an equally urgent need to target a positive rate of growth in these programs with external financing requirements and benchmarks reflecting this orientation. On this question, the proposals in the Group of Twenty-Four's Report on the Role of the Fund in Adjustment with Growth should influence the future design of programs supported by the facility, including the proposal to apply benchmarks and, above all, to require prior actions only where indispensable.

Finally, the staff work load in connection with the facility is heavier than originally envisaged, and we wonder whether the efficiency of these procedures can be enhanced without some relaxation of hiring ceilings.

Mr. Massé made the following statement:

Although there have been some initial difficulties with the structural adjustment facility, this was to be expected given the facility's innovative and ambitious nature. Moreover, it was recognized at the outset that the development of the facility would be an evolutionary process. My authorities remain committed to the concept of the structural adjustment facility; they strongly support the collaboration between the Fund and the World Bank in drawing up the policy framework papers; and they welcome the recent efforts by the Managing Director to enhance the facility's resources.

My authorities generally agree with the approach taken so far with respect to qualification for assistance under the facility, and they do not see a need for a more restrictive application of the balance of payments criterion at this time.

Regarding procedural considerations, we are encouraged that the policy framework paper process has contributed to a closer collaboration between the staffs of the Fund and the World Bank. This is an important development; generally, such collaboration should be a part of structural adjustment programs. Therefore, in some cases, it may be necessary to accept some delay in order to facilitate the Bank's involvement. However, as the staff points out, there may be a few cases in which Bank involvement is not an absolute requirement, although this situation should be considered exceptional.

A legitimate concern is that in some cases, the relevant authorities have had only minimal input into the policy framework paper because of the practice of the Bank and Fund staffs of preparing a fairly refined draft in Washington prior to negotiations. However, while I share the concerns expressed by other speakers about this problem, I understand that it may be difficult to remedy, given the current resource constraints. However, I agree with Mr. Finaish that the purpose of the papers is to involve the authorities of the countries concerned, and that it is therefore essential that they fully understand and agree with what is contained in the papers, since our purpose is, in the end, to get the policies implemented.

Concerning the presentation of papers to the Board, my authorities feel that the one-step process of combining consideration of the policy framework paper and a request for a structural adjustment arrangement should continue, in the interest of economizing on demands on both the staff and the Board.

As to the policy framework paper itself, in view of the amount of useful information and analysis that is presented in these papers and the work involved in their preparation, my authorities would strongly encourage a broader role for their use, which in turn requires their wider distribution. To facilitate this, we agree that specific policy commitments should be left more to the letter of intent accompanying the request for a structural adjustment arrangement. Thus, the policy framework paper would concentrate more on analysis of macroeconomic and structural problems, the strategy to deal with these problems, and the general nature and extent of macroeconomic and structural reform to be pursued in the following three years, including policy priorities. However, if policy framework papers are to act as steering briefs for aid agencies, I agree with Mr. Lankester that we may need to consider more fully donors' requirements, particularly details concerning the public investment plan.

Moreover, the paper must be comprehensive, and analytically rigorous if ultimately it is to play its role as a central aid-coordinating document, and in order to maximize its usefulness to the membership.

It has been suggested that in the interest of providing assistance more quickly, detailed analysis could initially be restricted in some areas, and incorporated at a later date. This might be suitable in some cases, but in general, my authorities feel that the emphasis should remain on comprehensive analysis even if this results in some delay. In addition, there could be additional focus on longer-term development issues as suggested by the Bank's management, but we would expect that input in this area would come largely from the Bank itself.

Updating the policy framework paper annually and adding an additional year to the macroeconomic framework and policy prescriptions is a good idea. Although a rolling three-year framework will add to demands on the staff, it could add substantially to the usefulness of the policy framework paper by providing a continuously relevant input to potential users as well as to the membership. In practice, countries negotiating structural adjustment arrangements will have to consider that the policy framework paper is their own document, not a Bank-Fund document. Otherwise, they may feel that the Bank and Fund require a lot of work from them, put more conditions on their investments, cramp their management style, and offer little financing as a reward for all their trouble. While the policy framework paper is an extremely useful instrument, it should be a joint product of the authorities and the Bank and the Fund, it should give direction for both policies and investment over time, and it should provide a rolling three-year framework in the present circumstances.

I agree with the staff that the resources of the structural adjustment facility should be used in support of strong growth-oriented adjustment programs, and that the facility must provide strong assurances of satisfactory policies in order for creditor governments and aid agencies to support associated adjustment programs and policy reforms. Therefore, while it is clear that the conditionality associated with structural adjustment arrangements should be somewhat more flexible and somewhat less tied to disbursements than the conditionality associated with stand-by arrangements, I must emphasize that it is still very important: a reasonable level of conditionality is required to establish the needed credibility and assurances. If the Paris Club, for example, is to consider a structural adjustment arrangement as an adequate alternative to a stand-by arrangement, it must be assured that the structural adjustment program is being properly implemented and monitored.

This does not necessarily imply that benchmarks need proliferate, nor that we must resort to quarterly benchmarks as a general rule. Indeed, I agree with the staff that the use of benchmarks should be limited to a few variables which are considered the most important for the purpose of monitoring the program. However, they should be clearly specified so that the Fund, the authorities, and other interested parties have a firm understanding of what is expected. I also agree that it would be useful to provide a more explicit framework of structural reform in the three-year program by including selected benchmarks that extend beyond the annual program in a few critical areas.

I welcome the proposal to raise the access limit on second-year disbursements. I think, like Mr. Goos, that it would be reasonable, and properly cautious, to increase access to about 25 percent of quota.

As for the direction that I think we need to take, it is clear that the resources available under the facility must be enhanced. Through the recent efforts of the Managing Director, we are moving in this direction, and it is important to show rapid progress in this area. Perhaps an additional reason for enhancement is that over time, and in view of overdue obligations to the Fund, we may have to conclude that for some countries the Fund itself should lend only concessionary resources.

Moreover, we must enhance the characteristics of the policy framework paper if it is to play a central role in the stabilization, structural reform, and development process. Many of the operational issues that we are discussing today will clearly help to achieve this. But in particular, I believe that the paper must take a somewhat longer-term focus, should include the objectives and proposed overall allocations of the public investment plan, and must dovetail tightly with Fund and Bank arrangements.

A final point, which follows the preceding one, is the need to enhance the role of the policy framework paper and structural adjustment arrangements in the consultative group process, so that the paper can provide the basis for the direction of bilateral agencies' strategies and projects. In this regard, I should perhaps note my belief that the Fund is both a stabilization and a development institution. For most, if not all, of our members, questions of long-term development and structural reform are central, and, as we realize more and more, are closely related to the successful macroeconomic stabilization efforts that are, and will continue to be, the Fund's priority. Therefore, if the Fund is to intervene successfully on behalf of its member countries, we have to be able to work out a coherent, integrated approach that ensures consistency between the short term and the long term, and between our stabilization and our development objectives.

Mr. Rye made the following statement:

It is not surprising that the subject of the structural adjustment facility attracts some rather divergent views in my rather diverse constituency. Although up to now none of my countries has embarked on a structural adjustment program, one or two small island countries have it very much under consideration. They are, of course, keenly interested in the prospective expansion of this facility.

By contrast, my Australian authorities have never regarded the facility with extreme enthusiasm. Their concern is that it may lead to the Fund's becoming increasingly involved in areas more closely related to the World Bank's responsibilities. In that context, I note that many of the suggestions in the staff paper appear in isolation to be admirable, inasmuch as they would improve the working of the facility; but some of them might also serve to heighten the profile of the structural adjustment facility within the Fund and steer the Fund further from its traditional role under the Articles of Agreement. The specific comments that I shall offer on the facility should be viewed against that background.

On whether the protracted balance of payments difficulties criterion ought to be applied more restrictively to determine eligibility for use of the facility, consistent with my authorities' preference for the Fund to stick as closely as possible to what they regard as its proper role, they favor rigorous application of this criterion. They are comfortable with Mr. Dallara's intervention on this point if, or when, the facility is enhanced.

I should like to add the personal comment that I find this view rather restrictive. There is a need to recognize that for some countries that have managed their economies prudently, the manifestations of a protracted balance of payments problem may not be as readily apparent as for those countries that have been less prudent.

My authorities oppose the proposal that if Fund involvement with a member through the structural adjustment facility is deemed useful and appropriate, involvement in the preparation of policy framework papers should not be an absolute requirement. They again agree with Mr. Dallara's intervention on this point and would wish to avoid a situation in which Fund staff began to duplicate activities that are more appropriately undertaken by the Bank. Moreover, in view of the objective of generating complementary finance, part of which would come from IDA, they would think it prudent to maintain a connection with the Bank as far as possible. This view may seem to be somewhat purist--though the words "as far as possible" perhaps provide some latitude. I myself would be inclined to put it this way: while every effort should be made to involve the Bank--including, if necessary, through approaches at top management level--there may need to be exceptions to the "absolute requirement," carefully considered, of course, on a case-by-case basis.

As an additional personal comment on the policy framework paper, I find it disturbing to read that "in some cases...the authorities' input [to the paper] has been confined to comments on drafts produced by the two staffs, while in other cases there has been little evidence that the authorities have regarded the policy framework paper with enthusiasm." I noted also Mr. Massé's comments on this point. A higher priority has to be given to the authorities' greater involvement in, and commitment to, the papers.

My authorities agree that the letter of intent covering structural adjustment programs should include a more detailed discussion of policy commitments, and I can go along with the extension of the policy framework papers to provide a continuous three-year program. I note that Mrs. Ploix has expressed some opposition to the idea of a rolling three-year program. However, it is not altogether clear to me that her position is distinct from that of the staff: her proposal for an annual updating could be consistent with the "rolling program" prescription. We, like her, would not like to see the wholesale redesign of the program every year.

While recognizing the problems involved in formulating benchmarks for structural policy adjustment, my authorities consider that adequate checks on performance under structural adjustment programs should be in place. They agree with the staff's proposal to concentrate on a few select benchmarks covering the expected path of structural adjustment. In this connection, Mr. Lankester seems to advocate a general rule of quarterly benchmarks. We consider that quarterly benchmarks may be unwarranted in the absence of a Paris Club rescheduling, particularly for small economies subject to fairly volatile swings in their trading position.

My authorities have no particular problem with the proposal to raise the access limit for second-year disbursements to 30 percent of quota. This would improve the flexibility of the facility to meet the wide variety of circumstances of the poorest countries.

On the enhancement of the facility, I have little to say. This is a pre-election period in Australia, and I cannot predict what view a new Government will take. However, my authorities have made two specific comments. First, they consider that a Trust Fund arrangement would be superior presentationally to an augmentation of the structural adjustment facility itself, even though there may not be a substantive difference. This preference is based on their view of the Fund's role.

The second point regards the suggestion that reserves be developed. While they can see that the Fund would need to be assured of the finance when it is needed, they wonder whether donors should bear an interest cost and have to provide funds from their budgets ahead of the approval of their disbursement in assocation with structural adjustment facility loans. It is unclear whether this notion of reserves is also meant to allay concern about repayments. If an arrears problem did develop, the question of who bore the cost would have to be faced, but it would seem inappropriate, my authorities suggest, to provide for shortfalls from the outset.

Mr. Fernando remarked that Mr. Rye's concern that the evolution of the facility might involve a departure from the accepted notion of the Fund's role under the Articles was puzzling. The Articles envisaged that the Fund would promote high levels of employment, income, and growth. The objective of the structural adjustment facility--to provide assistance to some developing countries to help restore and maintain growth--was consistent with that role. Moreover, a number of countries were not able, for whatever reason, to promote and maintain growth without some assistance. If the Fund's resources were not used to facilitate growth, a number of countries would derive little benefit from their membership of the Fund.

Mrs. Ploix commented that her authorities did not favor a rolling three-year program at present. However, that suggestion could be reconsidered on the basis of more experience with the facility or when the prospects for enhancing its resources and operations in the medium term were clearer.

Mr. Kabbaj made the following statement:

Our discussion today follows the favorable response of the Venice economic summit to the Managing Director's generous initiative in support of heavily indebted low-income developing countries. In this regard, I wish to express the sincere appreciation of this chair for management's efforts to enhance the resources that can be made available on concessional terms to those eligible members that are undertaking growth-oriented adjustment programs.

As is pointed out in the proposal to the summit, these countries are unable to reverse the existing negative trend in their economies through their own efforts. Most of these countries are adversely affected by exogenous factors such as unfavorable weather. The persistent decline in raw material prices and the slow growth of their exports are the results mainly of sluggish economic growth in major industrial countries and policy inconsistencies among them. The recognition by the summit participants of the difficult economic problems of the poorest African countries and of the need for special treatment, including the significant increase in the resources of the structural adjustment facility, as well as debt relief through the application of lower interest rates, and the lengthening of payments and grace periods on their existing debt, are steps in the right direction. These good words should now be followed by action, and I hope that our discussion today will lead us toward resolving the remaining technical issues raised in the Managing Director's statement on the enhancement of the facility.

I generally agree with the thrust of the Managing Director's statement. In fact, management's views and concerns are, to a large extent, in conformity with those expressed by the Group of Twenty-Four, including this chair, on various occasions. The statement places an important emphasis on growth-oriented adjustment programs and on the crucial role the Fund has to play in assisting developing nations embarking on an orderly and feasible program to achieving a sustainable rate of growth. The Fund should not only help in the formulation of adjustment programs with growth but also enhance its concessional finance in support of those programs. In this respect, I am heartened by the statement that "it is clear that if SAF-eligible countries are to be given an opportunity to pursue strong and efficiently implemented growth-oriented adjustment programs, without being duly constrained by a lack of external financing, a large amount of additional resources will be required." This is particularly important at a time when these countries' international reserves are depleted, their actual and potential access to other Fund resources have been curtailed, and private lending is virtually interrupted.

Regarding the amount of resources that should be made available to the facility by member countries, I fully share the view that "it is proper to seek help from a wide circle of countries." In this respect, the additional resources should come particularly from countries that have had substantial gains through favorable terms of trade in recent years.

On the question of modalities, I strongly suggest that the first option--namely, administration by the Fund of additional resources through a trust account--would better serve the criteria regarding quick and timely disbursement of resources to recipient members on the basis of uniformity of treatment. To do otherwise would complicate the issue. In this regard, I share the concerns expressed by Mrs. Ploix and others regarding the high cost of administering the facility. I would urge the exercise of restraint through simplifying procedures, especially with respect to those countries--for example, small or island countries--for which the cost of administering funds could be higher than the amount of funds actually channeled to them.

After reviewing the experience with the facility, I believe that it is premature to assess its performance. Since the design of structural adjustment arrangements is based upon a three-year macroeconomic and structural adjustment program, the facility's effectiveness can be assessed precisely only when the Board is able to review economic and financial performance under member countries' programs. However, we are in a position to consider the shortcomings and deficiencies of the system that arose during the first year of its operation.

At the outset, it is discouraging to note that notwithstanding the emphasis placed by all Directors on the need to make the resources of the facility available quickly, only ten loans were approved and only SDR 139 million disbursed in the first year of operation. The staff has well described the various factors contributing to such delays, the most important of which appears to be the requirement to formulate a comprehensive structural reform program. In view of the severity of the economic problems most of the eligible members are facing and the urgent need to implement adjustment programs, necessary modifications should be made to the policy framework paper to expedite the approval by the Board of structural adjustment arrangements. In this regard, the staff comment on a "staged approach whereby the initial policy framework paper would contain detailed analysis only in some areas, with the diagnosis of policies in other areas specified more fully only in the revised policy framework papers for the second and third years" seems appropriate.

I am confused about the role envisaged for the policy framework papers, the process involved, and its implementation. I believe that the policy framework paper should be produced by the authorities--with the assistance of the Fund and the Bank staff--and should identify objectives and policy priorities. However, the staff indicates that "in all cases thus far, the two staffs have prepared a draft at headquarters and have had it cleared by both managements before the papers were discussed with the authorities." I wonder to what extent the authorities are the major partner in the preparation of the papers. As I have stressed on many occasions, the papers should be the product of the country itself and should not be imposed by the Bank or the Fund. I would also like to know the degree of flexibility given by the two staffs to the authorities' views on the draft policy paper which is cleared by both managements prior to the discussion with the authorities.

In reviewing the issue of cross-conditionality, the staff indicates that the policy framework paper..."by definition must be approved by the managements of both institutions." It also indicates that "the two Executive Boards were to review rather than approve" the paper. I wonder whether the Executive Board reached the same conclusion when the decision on the structural adjustment facility was taken, particularly as the formulation and implementation of the annual programs under the structural adjustment arrangement are supposed to be based upon Executive Directors' views on the policy framework paper. I would welcome staff comment on this point.

As for Fund-Bank collaboration on negotiations with the authorities on the policy framework paper, I share the staff's view that cross-conditionality should be avoided to the extent possible. Furthermore, in some cases the Bank has terminated its disbursements to a country for, in my view, unjustified reasons, such as security conditions, while at the same time the Fund has continued to conduct its Article IV consultations with the authorities. For example, a member of my constituency, Afghanistan, has requested a structural adjustment arrangement; the discussion with the Fund staff will be held in Kabul in the second half of June, but the Bank is not prepared or even willing to engage in such discussions. In such cases, the Fund should go forward without the Bank, and I have noted in this regard management's favorable reaction to Mr. Reddy's comment on a similar case.

On access limits, this chair considers that second-year disbursements could be increased to perhaps 35 percent of quota--slightly above the staff's proposal of 30 percent--taking into account the amounts expected to become available to the facility, which would reach about 59 percent of quota, and the lower than expected actual disbursements in the first year.

Finally, the conditionality attached to the use of the resources of the structural adjustment facility is already excessive and has to be reduced to make the facility more attractive and feasible to implement. I therefore agree with those speakers who cautioned against introducing any tightening of conditionality at present. We should keep in mind that the structural adjustment facility resulted from the transformation of the Trust Fund--a low conditionality facility--into a relatively high conditionality facility. It was hoped that the new facility would trigger the provision of additional resources; these additional resources never materialized. This experience shows that potential contributors should not request the imposition of tighter conditionality before pledging formally their support to the Managing Director's recent initiative. With more experience, we will be in a position to review more appropriately the operation of the structural adjustment facility.

The Chairman remarked that Mr. Kabbaj's understanding of his statement on enhancement of the facility was inaccurate; while he had encouraged donors to be forthcoming in their participation in the enhancement, he had not related that appeal to the tightening of conditionality. The enhancement of the facility's resources remained a separate issue from the facility's conditionality.

Mr. Kabbaj said that his intervention was intended to stress that the Board should not consider a tightening of the conditionality associated with the use of structural adjustment facility resources before the enhanced facility was actually in place. Once the amounts of additional financing were known, the Board could consider changes in the operation of the facility.

Mr. Rye commented that Mr. Fernando's remarks on the role of the Fund were troubling; indeed, he would vigorously reject any implication that the only reason for a country to be a member of the Fund was the hope of monetary assistance, or even technical assistance and advice. He firmly believed that every country had a stake in being a member of an organization that played an important role in the functioning of the world monetary and economic system.

Mr. Fernando responded that while he appreciated that the Fund's role consisted of providing more than balance of payments support and technical assistance, Mr. Rye's perception of the Fund's objectives limited the Fund's effective role with respect to a large part of its membership.

The Chairman observed that the Articles provided good grounds for reconciling the views expressed by Mr. Rye and Mr. Fernando regarding the role of the Fund in the development process.

The Executive Directors agreed to resume their discussion on June 19 at 3:15 p.m.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/87/90 (6/17/87) and EBM/87/91 (6/18/87).

3. ECUADOR - 1986 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1986 Article IV consultation with Ecuador to not later than June 29, 1987. (EBD/87/160, 6/15/87)

Decision No. 8624-(87/91), adopted
June 17, 1987

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by an Advisor to Executive Director as set forth in EBAP/87/139 (6/16/87) is approved.

5. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/87/141 (6/17/87) is approved.

APPROVED: December 21, 1987

CHRISTIAN BRACHET
Acting Secretary