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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/40

3:00 p.m., March 29, 1989

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
F. Cassell	C. Enoch
	Di W., Temporary
	C. S. Warner
	J. Prader
	L. B. Monyake
	S. M. Hassan, Temporary
E. V. Feldman	R. J. Lombardo
L. Filardo	M. A. Fernández Ordóñez
R. Filosa	
M. Finaish	A. M. Othman
M. R. Ghasimi	
G. Grosche	
J. E. Ismael	E. Kiriwat
	L. E. N. Fernando
A. Kafka	J. R. N. Almeida, Temporary
M. Massé	
	C. V. Santos
	I. A. Al-Assaf
J. Ovi	M. Fogelholm
	D. Marcel
G. A. Posthumus	M. Eran, Temporary
C. R. Rye	C.-Y. Lim
	S. Yoshikuni
	N. Adachi, Temporary

C. Brachet, Acting Secretary
J. W. Lang, Jr., Acting Secretary
D. J. de Vos, Assistant
C. E. Wahlstrom, Assistant

Also Present
IBRD: F. Lysy, Latin America and the Caribbean Regional Office; U. Thumm, Economic Advisory Staff. African Department: M. Touré, Counsellor and Director; E. L. Bornemann, Deputy Director; G. E. Gondwe, Deputy Director; Z. Ebrahim-zadeh, A. Jbili, R. C. Williams. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; E. Brau, B. Christensen, A. P. De La Torre, H. Hino, S. Kanesa-Thasan, J. Pujol, A.-D. Riess, M. H. Rodlauer, H. J. G. Trines, L. Valderrama. External Relations Department: P. E. Gleason. Fiscal Affairs Department: K. Nashashibi, C. Liuksila. Legal Department: R. H. Munzberg, Deputy General Counsel; H. Elizalde, A. O. Liuksila, J. K. Oh. Research Department: J. H. Green, J. Martelino, P. R. Menon, B. C. Stuart, D. Villanueva. Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer; J. E. Blalock, K. Boese, A. R. Gluski, D. Gupta, D. K. Kar, E. J. H. Rich, P. S. Ross, G. Wittich. Western Hemisphere Department: J. Ferrán, Deputy Director; R. A. Elson, H. Ghesquière, G. R. Le Fort, L. Schmitz. Office of the Managing Director: P. Shome. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: F. E. R. Alfiler, E. Ayales, M. B. Chatah, G. García, J. M. Jones, P. D. Péroz, M. Pétursson, G. Pineau, S. P. Shrestha, D. C. Templeman, N. Toé, A. Vasudevan, R. Wenzel. Assistants to Executive Directors: B. A. Christiansen, E. C. Demaestri, S. K. Fayyad, J. Gold, M. A. Hammoudi, M. E. Hansen, A. Hashim, C. L. Haynes, M. Hepp, J. Heywood, Hon C.-W., C. J. Jarvis, P. Kapetanovic, K.-H. Kleine, K. Kpetigo, C. Y. Legg, V. K. Malhotra, R. Marino, G. Montiel, N. Morshed, J. K. Orleans-Lindsay, S. Rouai, D. Saha, J.-P. Schoder, C. C. A. van den Berg.

1. VENEZUELA - 1989 ARTICLE IV CONSULTATION; AND PURCHASE TRANSACTION - FIRST CREDIT TRANCHE

The Executive Directors resumed from the previous meeting (EBM/89/39, 3/29/89) their consideration of the staff report for the 1989 Article IV consultation with Venezuela, together with a request for a purchase in the first credit tranche in an amount equivalent to SDR 342.875 million (EBS/89/34, 3/1/89; Sup. 1, 3/14/89; and Sup. 2, 3/24/89). They also had before them a background paper on recent economic developments in Venezuela (SM/89/57, 3/22/89).

Mrs. Filardo noted that as she had mentioned on previous occasions, the enhanced surveillance procedure had been very useful for Venezuela. In view of the authorities' intention to enter into a Fund-supported program, they had requested termination of the enhanced surveillance and had proposed that the staff report not be distributed to commercial banks. The final decision in that respect would be up to her authorities.

With respect to the approval of restrictions arising from arrears to the commercial banks, it was important that Venezuela obtained the full support of the Fund, including the approval of the decision as proposed, Mrs. Filardo said. In considering how to proceed in the context of the new debt strategy, one question for Board consideration was whether it was reasonable to expect that Venezuela would have reached an agreement with the commercial banks by midyear, when the extended arrangement was likely to be considered by the Board. The authorities had demonstrated their full commitment to implementing the program in a timely fashion, and were working very hard to prepare a financing package to be presented to the commercial banks. However, such negotiations were often lengthy, and the authorities would also request waivers from the banks, as they were considering a reasonable amount of debt reduction, but they were uncertain how the commercial banks would respond to that request. In addition, there was a great degree of uncertainty with respect to various elements of the debt strategy--including in particular U.S. Treasury Secretary Brady's debt initiative.

It had been suggested that debt/equity swap arrangements could make an important contribution to reducing Venezuela's debt burden, Mrs. Filardo observed. However, Directors had also expressed concern about inflationary pressures, and a debt/equity swap arrangement was likely to have a tremendous impact on inflation. Her authorities therefore intended to present a coherent, reasonable package to the commercial banks. They also intended to keep the Fund informed about the progress in the ongoing negotiations.

The Chairman welcomed the understanding and sympathy shown by Executive Directors for the difficulties being faced by the Venezuelan authorities, particularly those inherent in launching a major growth-oriented adjustment program in the midst of social and political disturbances and at a time when further adaptations in the debt strategy were being considered. He also appreciated the willingness of the Executive

Board, given the quality of Venezuela's program and policies, to approve the first credit tranche purchase even though financing assurances were still being sought. Venezuela's situation would have to be examined carefully over the next few months. Indeed, the adaptation to the debt strategy would take shape, in part, as the Fund worked together with member countries in the months ahead to find solutions to their problems. The Fund had made several far-reaching and important proposals for moving the debt strategy forward, which still had to be put in place. One of the difficulties experienced in the past had been the length of time it had taken to define countries' policies and the even longer time it had taken to reach agreements with the banks.

A remarkable feature of Venezuela's program was in fact the expeditious way in which the authorities had put it together--only two months after the inauguration of the new Administration--and how expeditiously the Fund had responded to the country's request, the Chairman noted. Of course, the close relationship between the institution and the member that had developed under the enhanced surveillance procedure had helped facilitate the process, but the final outcome was nevertheless noteworthy. The banking community should now be invited to respond expeditiously as well; however, financing arrangements were likely to become increasingly difficult to reach, as countries began to look for external financing for longer periods, and on more complex terms. Yet, if a country began implementing a program without having a clear view of how the external financing gap would be filled, the program would be very likely to fail. That was the message that the Fund would have to convey in the coming months. The purpose of the Fund's policy on financing assurances had been to protect members' programs and to ensure that both obligations to the Fund would be repaid; but it also was to exert pressure on the commercial banks to act quickly. That purpose remained valid and should be maintained and, perhaps, even reinforced.

Mr. Kafka remarked that he was deeply impressed by the Chairman's remarks. While Mr. Cassell's suggested amendment of the proposed decision on the approval of restrictions arising from arrears to the commercial banks seemed impressive, he was concerned that it might encourage the banks to delay the negotiations with the authorities until a decision on an extended arrangement had been taken. Therefore, he supported the proposed decision.

Mr. Cassell said that his intention had been to try to avoid such a situation by not approving the retention of the restrictions until as late as September 30, 1989. If the Fund reviewed the decision upon approval of an upper credit tranche arrangement, it would put pressure on both the commercial banks and the authorities to reach an agreement quickly.

The Chairman suggested that the Board accept Mr. Al-Assaf's amendment to the proposed decision, which was quite similar to that of Mr. Cassell. It seemed appropriate to review the overall situation in Venezuela, including the retention of restrictions, at the time of the Board's consideration of an extended arrangement.

Mr. Templeman said that it was crucial that all parties involved acted quickly to put together a strong program and an adequate financing package for Venezuela. However, it would be preferable for the restrictions arising from arrears to commercial banks to be eliminated before September 30, 1989. The Board would have to look at the entire economic program and financing package when it considered an extended arrangement with Venezuela, and it seemed appropriate to review the decision on restrictions at that time as well. Furthermore, the Board's consideration of the extended arrangement would not take place for another three months; indeed, it would be disappointing if the authorities and the commercial banks had not come to an agreement by that time.

With respect to Mr. Al-Assaf's suggested amendment to the proposed decision, Mr. Templeman asked what would happen if the Board had not agreed on an extended arrangement by the end of July. Would the Board have to meet to review only the retention of the restrictions arising from arrears to commercial banks?

The Chairman said that if the Board had not considered an extended arrangement for Venezuela before July 31, 1989, a review of the decision on the retention of restrictions would still be justified.

The staff representative from the Legal Department remarked that, in accordance with Directors' suggestions, the period for approval of Venezuela's retention of a multiple currency practice and exchange restrictions on payments and transfers for current international transactions as evidenced by arrears on certain debt service payments would be shortened to July 5, 1989, instead of September 30, 1989. An additional sentence would be added to the decision, reading: "The Fund will review this decision upon approval by the Fund of an upper credit tranche arrangement for Venezuela, or on July 5, 1989, whichever is earlier."

Mr. Cassell and Mr. Templeman said that they could accept the suggestion by the staff representative from the Legal Department.

Mrs. Filardo stated that it was not realistic to expect that the authorities and the commercial banks would have agreed on a full financing package by July 5, 1989. In her view, it was not desirable to push the country into hasty negotiations; on the contrary, the case called for careful reflection.

The Chairman remarked that the negotiating process was likely to be expedited if the authorities explained to the commercial banks that July 5, 1989 would be the deadline for completing the negotiations. For its part, the Fund would emphasize the quality of the authorities' program, and would also provide the commercial banks with medium-term scenarios and all other appropriate information, to enable them to make their own decisions about the amount of new money and debt service reduction, including debt/equity swaps, that they would have to provide. The intention was not to put pressure on Venezuela to negotiate in haste, but rather to conclude, as soon as possible, satisfactory negotiations with the banks, which would be in their own best interests, as well as those of Venezuela. It was in the general interest to break the cycle of lengthy negotiations that led only to larger arrears, frustration, and, in the meantime, slippages in adjustment policies.

The Chairman made the following summing up:

Executive Directors strongly commended the Government, which had assumed power in early 1989, for the adoption of a comprehensive adjustment program aimed at reversing past trends and setting the economy on a path of sustainable growth, as well as for its determination to proceed with the program despite the unfortunate incidents that had surrounded the announcement of corrective price measures in late February. They noted that the authorities' program had been made necessary by the continued deterioration in Venezuela's economic situation in 1988 because of adverse changes in the international environment--including a downturn in the terms of trade and rising interest rates--and of weaknesses in domestic policies.

Directors in general were of the view that Venezuela's economic adjustment program was a strong one, fully deserving of Fund support, and they noted the authorities' intention soon to request an extended arrangement from the Fund in support of Venezuela's medium-term economic strategy. They welcomed the prospective involvement of the World Bank through its policy-based loans. In the meantime, Directors endorsed Venezuela's request for a first credit tranche purchase. They agreed that this endorsement was warranted even though financing assurances were still being sought--noting the quality of the program, the time required to negotiate a rather complex financing package with the banks, the need to maintain flexibility in implementing existing guidelines, Venezuela's past record of cooperation with the Fund as a creditor, and its affirmation of the Fund's preferred creditor status. Also, in the view of a few Directors, such purchase might help to catalyze bridge financing and the rest of the financing package required in support of a future upper credit tranche arrangement. However, Directors emphasized the importance they would attach to obtaining better indications of how the authorities would expect to close the external financing gap in the context of an upper tranche arrangement. In this connection, they expressed hope that substantial progress in the ongoing negotiations between the authorities and the commercial banks would have been made by the time the Venezuelan request for an extended arrangement would be brought to the Board. Directors noted also that the Executive Board would soon have an occasion to consider the Fund's general policy on financing assurances.

Directors noted the significant external financing requirements for 1989. They underscored the critical importance for commercial banks to contribute to the financing of the prospective gap on a scale broadly commensurate with their share in Venezuela's outstanding external debt. In that regard, most Directors concurred that, in the context of the evolving debt strategy and of the likely need for Venezuela to obtain a combination of new money and debt reduction, the closing of the financing gap would pose a considerable challenge to the parties involved; speakers, noting Venezuela's record of collaboration with its creditors, encouraged both parties to work constructively toward an early agreement. It was emphasized that, given Venezuela's present circumstances, the commercial banks, the international financial institutions, and the financial community at large would have to be ready to cooperate extensively.

Directors underscored the importance of timely implementation of structural policy changes in the areas of trade reform and price deregulation, which they considered essential in securing a basis for sustained economic growth, and they recognized that decisive steps had been taken. They noted that, at the heart of Venezuela's effort to adjust and revive the economy, were decisive changes in relative prices brought on by the adoption of a unified and market-determined exchange rate, the removal of most interest rate ceilings, adjustments in public sector tariffs and decontrol of a number of administered prices, as well as the restoration of collective bargaining in the private sector--all of which were expected greatly to enhance the efficiency of resource use.

In the view of Directors, a critically important feature of the program was the establishment of a unified, market-determined exchange rate, which should help bring about a sizable strengthening in Venezuela's external current account, improve resource allocation, and help in the diversification of the economy toward areas other than oil--areas which, it was noted, still made a very small contribution to exports. It was observed that the trade policy reform, which the Government was undertaking with World Bank assistance, could also be expected to have a significant impact on the growth of exports, and the production of tradable goods in general, over the next several years. Directors further remarked that a flexible exchange rate policy, together with strong fiscal and monetary policies--especially real positive domestic interest rates--should encourage the repatriation of capital held abroad by Venezuelan nationals, and they noted that the authorities' program assumed capital reflows. Several Directors, however, noted the uncertainties unavoidably attaching to the size and speed of capital repatriation, which might complicate the implementation of the program; indeed, a few Directors suggested that given these uncertainties, capital repatriation should rather be expected to contribute to overperformance than be factored in as an element of compliance with program targets. To restore investors' confidence promptly, it was crucial therefore that the credibility of the program be established early, which in turn hinged on the steadfastness of the authorities in carrying out the needed policy corrections.

Directors observed that price flexibility in the domestic market was a necessary corollary of the exchange and trade reform if resource allocation were to improve. Therefore, they welcomed the significant liberalization of prices and the more flexible administration of price controls that would take effect under the program--noting that these were important first steps on the road toward raising the prices of tradable goods gradually to opportunity cost levels.

Directors noted that, in the present environment of sharp realignments in relative prices, there was a risk that an inflationary process could take hold. Directors therefore stressed the importance of proceeding speedily with trade liberalization, and of wage and financial policies being kept sufficiently restrained, to allow the authorities to meet their inflation target.

Directors welcomed the significant decline in the overall deficit of the public sector--including the exchange losses of the Central Bank--that the authorities were aiming at for 1989. They noted that the fiscal deficit was to be reduced mainly through additional revenue raising measures, deriving largely from adjustments in customs duties and domestic prices, including for oil and utilities. They wondered, however, whether reliance on revenue growth would not place the fiscal program at some risk, given also the inevitable uncertainties attaching to oil export receipts. There obviously would be a need for careful monitoring of fiscal trends, so that the Government would be able to take corrective action, including expenditure cuts if needed, on a timely basis. Some Directors also observed that a lasting improvement in the public finances would require domestic tax reform as well as the rationalization of public enterprise operations through cost-cutting, administrative improvements, and divestment.

Directors welcomed the greater transparency of government subsidies that was evident in the Government's fiscal program, and the initiatives that were being taken to alleviate poverty and protect the poorer segments of society from some of the dislocations caused by the adjustment process. Speakers agreed that the program for poverty alleviation would be an important element in creating and maintaining social consensus in support of the economic strategy.

Directors noted that the deregulation of the financial system would be an important complement to the exchange rate reform. The recent liberalization of interest rates was seen to have significant beneficial effects on the growth and allocation of domestic financial resources and on foreign capital inflows. Directors stressed the need for a restrained credit policy to contain inflationary pressures, foster exchange market stability, and help achieve the international reserve objectives of the program. Directors emphasized the importance of a rationalization of monetary policy instruments in future years.

The authorities consider the exercise of enhanced surveillance for Venezuela to be in abeyance for the time being, pending their intention to request termination of enhanced surveillance upon approval of an extended arrangement. In the meantime, they would not make available to their commercial bank creditors the staff report for the 1989 Article IV consultation with Venezuela and its request for a first credit tranche purchase.

It is expected that the next Article IV consultation will be held on the standard 12-month cycle.

The Executive Board then took the following decisions:

Exchange Measures Subject to Article VIII

1. The Fund takes this decision relating to Venezuela's exchange measures subject to Article VIII, Sections 2 and 3, in the light of the 1989 Article IV consultation with Venezuela conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. As described in EBS/89/34, Supplement 1, Venezuela continues to retain exchange restrictions on payments and transfers for current international transactions as evidenced by arrears on certain debt service payments pending the negotiation of restructuring agreements with foreign commercial creditors, and a multiple currency practice arising from exchange guarantees on certain repayments of private sector debt and trade credits outstanding before the adoption of the new exchange system, all of which are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund notes the intention of the authorities to eliminate these restrictions and the multiple currency practice after a temporary transitional period, and grants approval for their retention until July 5, 1989. The Fund will review this decision upon approval by the Fund of an upper credit tranche arrangement for Venezuela or on July 5, 1989, whichever is earlier.

Decision No. 9112-(89/40), adopted
March 29, 1989

Purchase Transaction - First Credit Tranche

1. The Government of Venezuela has requested a purchase equivalent to SDR 342.875 million.

2. The Fund notes the intentions of the Government of Venezuela as stated in the Memorandum on the Economic Policies of Venezuela attached to the letter of the President of the Central Bank of Venezuela and the Ministers of Finance and Planning dated February 28, 1989 and approves the purchase in accordance with the request.

Decision No. 9113-(89/40), adopted
March 29, 1989

2. STRUCTURAL ADJUSTMENT FACILITY, ENHANCED STRUCTURAL ADJUSTMENT FACILITY, AND ESAF TRUST - REVIEW AND AMENDMENT

The Executive Directors considered a staff paper reviewing the operation of the structural facility, the enhanced structural adjustment facility, and the ESAF Trust (EBS/89/35, 3/3/89). They also had before them a paper providing background information for the review (EBS/89/49, 3/15/89).

Mr. Monyake made the following statement:

Three years after the initiation of the structural adjustment facility, less than half of the eligible countries have benefited from the facility, and only one third of the available resources has been disbursed. The pace of utilization is even slower for the enhanced structural adjustment facility. Only six arrangements, five of them upgraded from the structural adjustment facility, have been approved. Obviously, this situation leaves much to be desired, and although the pace of utilization is a crucial element in assessing the effectiveness of these facilities as tools in the adjustment strategy of the Fund, the staff paper has failed to provide a satisfactory explanation for the delays. To what extent is the problem the result of excessive conditionality? Are countries shying away because too ambitious reforms are being suggested over the program period? Has the complexity of the policy framework paper process in terms of content, coverage, and the number of partners involved in its preparation, and the multiplicity of interests to be satisfied, slowed down the use of resources under both facilities? These are important questions that must be addressed.

The purpose of programs supported by the structural adjustment and enhanced structural adjustment facilities, as we understand it, is to make growth an integral part of

Fund-supported adjustment programs or an explicit objective to be achieved. In other words, growth was not to be considered a residual outcome of financial programming. This was in recognition of the fact that in low-income countries--whose economies have already been trapped by low levels of demand resulting from austerity-centered adjustment programs and adverse external and exogenous factors--successful adjustment could be accomplished only in the context of expanding output. The issue of growth is particularly important for sub-Saharan Africa. Even if the growth targets in programs supported by the structural adjustment and enhanced structural adjustment facilities are achieved, they fall short of what is required to have a meaningful impact on the standard of living in many countries. I must therefore reiterate my authorities' position that they attach the highest priority to the formulation of programs geared, at a minimum, to arresting the decline in per capita income in their countries.

While it is true that achieving a viable balance of payments position is important and should not be overlooked, growth should not be sacrificed simply to achieve viability in a short period of time. Also, it might be too optimistic to assume that a viable balance of payments position can be achieved by the end of the program period in most of the countries concerned. It must be recognized that external financing is not readily available; the debt overhang remains serious; there is a need to maintain a minimum level of inputs and investment; and that there are practical difficulties to mobilizing substantial domestic savings. These and other factors are structural constraints that are not easily manipulated by altering macroeconomic variables, unlike the traditional stabilization model in which balance of payments disequilibrium is treated as a monetary phenomenon that can be corrected quickly by demand-management policies. In the case of countries eligible for the structural adjustment and enhanced structural adjustment facility resources, it may therefore be necessary, and even desirable at times, to accept a slower pace of fiscal consolidation and more limited progress toward balance of payments viability over the medium term, in order to lay the groundwork for sustained and orderly reduction in the future of external and internal imbalances in the context of an expanding economy. To improve the chances of attaining program objectives, it might be necessary here to support strongly the staff's view that experience has underlined the need for increased aid disbursement and for a reduction of the debt service burden in many of the countries with enhanced structural adjustment arrangements.

The staff's view of what should constitute an adjustment strategy in programs supported by the structural adjustment facility and enhanced structural adjustment facility sends conflicting signals. On page 11 of its paper, the staff writes "that there are many reasons why it may be difficult in certain cases to target substantial progress toward balance of payments viability during the three year program." This is well and good because experience highlights the practical constraints prevailing in low-income economies that have implications for program design and the pace of adjustment. Nonetheless, the staff argues in the next paragraph that the Fund's financial involvement must require "minimum assurances" of "substantial progress" toward balance of payments viability in all programs supported by the structural adjustment or enhanced structural adjustment facilities. These minimum assurances in effect call for increased conditionality.

This approach is based on two flawed assumptions: first, that where program performance has been below expectations, the situation will improve by the authorities taking more of the same measures, both more quickly and more intensively--in other words, faster depreciation of the currency, tighter austerity measures, closer monitoring of benchmarks, and increased use of prior actions. The second mistaken assumption is that the adjustment effort can be put into neat packages that permits economic fine-tuning in increasing detail. My chair's view is that the problems of structural adjustment cannot be overcome simply by the intensification of conditionality. It is also our view that conditionality under the structural adjustment and enhanced structural adjustment facilities is already excessive and may have discouraged many members from seeking assistance.

To be sure, there is no alternative for low-income countries than the adoption of comprehensive structural adjustment programs to address the deep-seated imbalances in their economies. My chair does not advocate adjustment programs that merely reflect a compendium of piecemeal policies without any procedures for monitoring progress. In this respect, there is no quarrel about conditionality per se; instead, the question is about the need for appropriateness and realism.

The current implementation rate of programs supported by the structural adjustment facility is less than 50 percent. This suggests that there is something more at work than solely lack of commitment on the part of the authorities to the adjustment process. It has been observed that a country's capacity to execute a program, including the authorities' administrative capacity, has a great deal to do with the success rate of a program. Meanwhile, it has also been observed that countries find it easier to implement macroeconomic policies in the fiscal and monetary areas than structural policies--such as reducing the size of the civil service, divesting public enterprises--all of which have a more direct impact on specific constituencies than macroeconomic policies do.

Overambitious programs with complex features tend to undermine the political sustainability of adjustment. Program design should therefore focus on selected key reform areas that are consistent with national development priorities; and benchmarks should be limited to a few growth-oriented variables. It is in this context that I endorse the staff suggestions for developing more fully the analysis required for appropriate formulation of measures and for tailoring of technical assistance to enhance countries' implementation capacity. There is no doubt that to improve implementation and to ensure better outcomes under programs supported by the structural adjustment and enhanced structural adjustment facilities, there is need for strong commitment on the part of authorities, which requires their full participation in program design at an early stage. Improved program design, as suggested above, together with increased external support in the form of increased aid flows and reduced debt service burdens will facilitate program implementation.

My chair's views on the policy framework paper have not changed. As was intended originally, that paper should remain a document of the national authorities, outlining a medium-term framework for growth-oriented adjustment programs. In this connection, the policy framework paper must focus on identifying key policy areas, assessing financing needs, and exploring possible sources of financing. However, the importance of resource mobilization does not mean that the paper must necessarily be the focal point of all financial assistance to countries eligible for arrangements under the structural adjustment facility. We therefore do not agree that the policy framework paper should be regarded as the one document that contains all answers to a country's economic problems, thereby requiring donors or creditors to provide all financial assistance through the paper. It follows that we are opposed to the suggestions of the staff to increase donor involvement in the preparation of the policy framework paper with the purpose of bringing all bilateral and multilateral financial assistance under the complete supervision of the Fund. The suggestions for increased donor involvement represent an attempt to force countries to surrender to whatever the Fund believes is the right course of policies, irrespective of the legitimacy of the authorities' views.

The major problem of the low-income countries is one of growth and development, and the Fund's expertise in this area is limited. Therefore, it would be most appropriate that aid coordination continues to be undertaken bilaterally or through the World Bank, which has already gained valuable experience in the area of cofinancing and in organizing consultative groups. In any event, and as admitted by the staff, the contribution of policy framework papers to the mobilization of additional resources has been limited. In fact, it could be argued that the policy framework papers have tended only to repackage existing external aid in the form of policy-based financing associated with Fund programs. The policy framework paper can become a more useful instrument through limiting its coverage to a few key structural issues directly related to the adjustment process, rather than trying to make it an elixir for all of the developmental and structural problems that a country could be facing. Full involvement of country authorities from the beginning of the process--not just to review a semifinalized document--will no doubt make the policy framework papers an effective tool in the adjustment process. Moreover, limiting the number of parties involved in its preparation will simplify the current complexity of the process.

Unless a serious attempt is made to address the problems of excessive conditionality and the complexity of the policy framework paper process, little progress can be expected in increasing the pace of resource utilization under the structural adjustment and enhanced structural adjustment facilities. Apparently, the views of borrowing countries in this regard are not being given due consideration, even though it is clear that mutual understanding is required to ensure the commitment of the authorities in borrowing countries.

Countries eligible for arrangements under the enhanced structural adjustment facility continue to experience serious domestic and external imbalances, and substantial external financial assistance will be needed to support their adjustment efforts. We agree with the staff that efforts should continue to be made to achieve the target of SDR 6 billion for the ESAF Trust and to secure additional resources to enable the interest rate on loans under the enhanced structural adjustment facility to remain at 0.5 percent. We also fully support the staff position to extend the cut-off date for the enhanced structural adjustment facility beyond November 30, 1989, and urge that the extension be for two years. In this connection, we welcome the willingness on the part of lenders to accept a corresponding extension of the drawdown periods under the ESAF Trust borrowing arrangements. We also support the recommendation that the current access limits and the interest rate of 0.5 percent be maintained. However, within the existing maximum limits, average access should be increased from 150 percent to allow actual access to be higher than what has been obtained under previous programs.

If the structural adjustment facility is to be terminated by November 30, 1989, the resources of the facility will remain idle after they are transferred to the Reserve Account of the ESAF Trust. Therefore, we strongly urge that the structural adjustment facility resources remain available for lending and that the structural adjustment facility deadline be extended to provide assistance for eligible members together with that under the enhanced structural adjustment facility. Third-year access under the structural adjustment facility should be raised to 25 percent of quota, instead of to the 20 percent proposed by the staff. Experience indicates that the risk of exhausting prematurely the resources under the structural adjustment facility--by raising third year access to 25 percent--is minimal. In the event that potential third-year access is raised, I agree that the structural adjustment facility regulations should be amended to allow the countries that have received third-year disbursements already to benefit fully from such an increase.

I note the staff views with respect to an extension of the eligibility list for support under the structural adjustment and enhanced structural adjustment facilities, and the interest expressed by Nigeria and the Philippines to become eligible to use the resources of the facilities. Because the two countries are now eligible for International Development Association loans, it would appear that they have satisfied the major criterion used in determining the list of countries eligible for arrangements under the facilities. Based on this, I share the staff's view that the request of the two countries be considered in the context of a broader review of the issues involved.

Continuing, Mr. Monyake noted that a further question not dealt with by him and the staff was the stages through which the Fund, Bank, and recipient country had to go through in formulating programs supported by the facilities. While the staff had listed five stages--namely, the specification of structural policies, the prioritization and sequencing of policy measures, the speed at which measures were introduced, the availability of data and expertise locally, and the provision of technical assistance from abroad--it had not yet specifically evaluated the effectiveness of those processes to date.

Mr. Fernando made the following statement:

In assessing the experience to date with the structural adjustment and enhanced structural adjustment facilities, we think that greater focus on the former is appropriate. The structural adjustment facility has been operational for three years, while the enhanced structural adjustment facility has yet to pass the one-year mark. Apart from the fact that there are only 6 arrangements under the enhanced structural adjustment facility compared to over 40 under the structural adjustment facility, the oldest program supported by the former featured in the staff papers has been in existence for only six months. Besides, despite the availability of the enhanced structural adjustment facility alongside the structural adjustment facility, several members have, for various reasons, opted to continue with structural adjustment arrangements. Consequently, while a review of operations can validly cover all three aspects of a program supported by the structural adjustment facility, namely, design, implementation, and monitoring, in the case of programs supported by the enhanced structural adjustment facility, a review is meaningful only with respect to the program design aspect. Also, in assessing the appropriateness of the design of programs supported by the enhanced structural adjustment facility, the Board should be mindful of the fact that without the benefit of wider experience in implementation and monitoring, any comments are bound to be highly tentative.

On the important issue of balance of payments viability during the three-year program period, the staff paper states that, in a few cases, it was not possible to target substantial progress toward viability. In these instances, attempts were made to correct the deficiency through the financing side, presumably because the latitude for further adjustment was small. In the staff's view, to justify the Fund's financial involvement, there must at minimum be assurances of substantial progress toward balance of payments viability in all programs supported by the structural adjustment or enhanced structural adjustment facilities. These assurances are to be secured through a stronger adjustment effort, which, in practical terms, involves a further stiffening of conditionality. It would seem that in trying to address the problem posed by a few countries--arising from the need for external financing--the conditionality of all programs is to be tightened. Are there any risks to growth and hence to the sustainability of programs arising from this greater emphasis on adjustment? The experience with the structural adjustment facility demonstrates that, among other macroeconomic objectives, growth was secured in most instances.

In setting up the enhanced structural adjustment facility, provision was made for larger resources to help sustain higher domestic expenditure and imports. This implies that the external current account deficit in the short run could be higher than under programs supported by the structural adjustment facility. The quid pro quo is that adjustment policies and structural reforms need to be sufficiently strong to ensure greater adjustment in the balance of payments over the medium term. Furthermore, the financing scenario in programs supported by the enhanced structural adjustment facility aims to build up or to maintain reserve levels and thereby to meet the uncertainties arising from the impact of structural reform and the amount and timing of external assistance.

A majority of programs supported by the structural adjustment facility have projected a decline in the external current account deficit during the arrangement period, a decline in the debt service ratio, and reduced or eliminated reliance on debt rescheduling or exceptional finance. In virtually all such programs, gross official reserves have been projected to increase, or have been programmed to be maintained at adequate levels. There were a few cases, however, in which all four elements of balance of payments viability mentioned above were not coexistent simultaneously. It must be recalled that overall balance of payments viability over a program period was never expected. The Chairman's summing up at the review of the structural adjustment facility in June 1987 (EBM/87/93, 6/19/87) noted that "Because balance of payments viability cannot be attained by many SAF eligible countries in the absence of increased concessional assistance, SAF programs for these countries would have to be strong...in order to (obtain external) support of policy reform...."

In order to secure assurances, the staff paper currently proposes, at minimum: a significant increase in the ratio of domestic savings to GDP, and concrete measures to achieve this; early movement to an appropriate level of the real exchange rate and of other key prices, and early implementation of other key measures; and discussion in the request for a structural adjustment arrangement of the progress expected toward attainment of balance of payments viability.

It would seem to my chair that much caution and judgment should be exercised in forcing the pace in these areas. In general, undue haste to meet these objectives and undue reliance on certain policy instruments could have a sharply contractionary impact, with adverse repercussions on growth rates. As incomes and private savings are low in countries with access to the structural adjustment facility, use of the budgetary tool can force up the level of domestic savings. Yet this sharp adjustment should not be at the expense of investment outlays or the maintenance of the capital stock--two early casualties of fiscal retrenchment. Private financial savings are known to respond to incentives, but only at very high and positive rates of interest. At these levels, private investment is discouraged. In a similar vein, early movement toward real exchange rate adjustment, however desirable, comes up against practical limitations in the absence of good indicators of an equilibrium rate. In the absence of adequate financing, these adjustments might, in any event, be forced on the country. But it is precisely to strike a balance between several objectives that adequate financing should be assured; stronger adjustment and supportive policy reforms are more likely if financing assurances and prospects are stronger. A lack of external resources commensurate with the adjustment effort can quickly lead to a weakening of the political will to carry out the envisaged reforms. What concrete measures in the area of domestic savings does the staff have in mind? And, more generally, what are the operational implications of the proposed stiffening of conditionality?

Firmer financing assurances from bilateral and multilateral sources can contribute to safeguarding the Fund's resources in general, as well as those under the structural adjustment and enhanced structural adjustment facilities in particular. We would, however, note that the experience so far has not been very encouraging. According to the Chairman's summing up at the review of the structural adjustment facility in June 1987, "Directors expressed concern that the catalytic role...in mobilizing resource flows from other sources had thus far not materialized." A year and nine months later, the picture is at best mixed. While aid disbursements during a program year are generally higher than in previous years, this is to be expected. In the short term, disbursements will be determined mainly by existing commitments in the pipeline. But more relevant to the issue of whether programs have catalyzed external assistance is a comparison of actual with projected disbursements during the program period. In over half the programs, there have been shortfalls in aid disbursements. While we recognize that some shortfalls could have been due to insufficient program implementation, a stronger and clearer response from external donor agencies could have given a stronger signal to the countries. We hope that in instances in which shortfalls are perceived as being the result of a lack of response from external agencies, the need for sharper adjustment would be judged in terms of its effect on other macroeconomic targets. As for protecting the financing scenario from external shocks, we encourage the staff to search for mechanisms to attach the external contingency mechanism of the compensatory and contingency financing facility to programs supported by the enhanced structural adjustment facility.

With respect to improving program implementation and structural content, it is difficult to overemphasize that the full commitment of authorities to the program is a prerequisite for its success. While efforts to strengthen the authorities' involvement in program design must be considered an ongoing exercise, we would particularly underscore the need to ensure that a consensus is reached in the borrowing country. This is of particular importance, but is also especially relevant to countries that delay approaching the Fund, and which then have such aggravated problems that the negative aspects of programs arise before the positive ones. This process will be facilitated if not only the political leadership, but also a broad front of a government is involved in the program discussion stage. The policy framework paper is a wide-ranging document that has the potential to interact with officials across a broad front of government. It would be a helpful process if, while discussing specific aspects of the paper with particular ministries or departments, the authorities are also made aware of the macroeconomic framework within which the program elements are to be fitted. What has been the staff's experience in this area?

The staff paper has spelt out several specific reasons why many structural measures could not be implemented, such as the lack of broad agreement within a recipient country, the lack of full understanding of the implications of agreed policy measures, and the overestimation of the recipient's administrative capacity for implementing measures. While a better implementation record of structural measures would have been welcome, we would draw attention to what had been anticipated at the first review of the structural adjustment facility. The Chairman's summing up noted that, in certain cases, it is not practicable in the initial stages to base programs on comprehensive and detailed analysis and to focus on comprehensive structural reform. In such cases, it would be useful to allow some flexibility and to experiment with a staged approach. This chair would emphasize that the program, particularly its structural components, should be within the administrative capacity of authorities to implement. In order to focus attention on the few key structural measures, we support the staff's recommendation to devote additional staff resources to developing more fully the analyses needed for the required structural measures. Furthermore, technical assistance to help authorities improve their administrative capacity for implementing measures should be provided.

Turning to how the Fund should respond to situations in which the record of implementation under previous Fund arrangements has been inadequate, the staff paper considers it appropriate to include as prior actions those key structural measures that were not implemented under a previous arrangement. My chair has some difficulty with this point of view. At the outset, I would state that we have no objection in principle to the requirement of prior actions being taken to activate a program if there were notable slippages under previous arrangements. The problem arises if one were to insist rigidly that the same structural measures not implemented earlier should henceforth be implemented. Perhaps the staff position is not as rigid as we have perceived it to be from the language in the paper.

There should be latitude to consider the circumstances and causes of noncompliance or nonimplementation of structural measures. The staff paper draws pointed reference to the difficulties of identifying, designing, prioritizing, and sequencing structural reforms, as well as to the authorities' lack of understanding in some instances. All programs supported by the structural adjustment facility might not run successively, so there can be a time lag between the formulation of the original and subsequent programs. As the authorities gather valuable experience, priorities can change. Certainly, a structural measure conceived and designed by the authorities has a better chance of being implemented. The general point that we would wish to make is that there should be room allowing for compensatory structural policy measures or those of a similar nature to constitute prior actions in instances in which measures were not implemented under previous programs.

With respect to the coincidence of the program and arrangement period, we have no difficulty in recognizing the need for additional flexibility on the grounds of the longer time required to involve authorities more fully in program design, to forge domestic consensus, or to execute prior actions.

As for the size of the enhanced structural adjustment facility in the context of the SDR 6 billion target for the ESAF Trust, we urge those who have not contributed to the Trust or to the Subsidy Account to do so.

We can support an extension of the enhanced structural adjustment facility cut-off date for one year beyond November 1989, in view of the uncertainties surrounding both the ultimate number of potential users and the gap that remains to be filled before reaching the target for the ESAF Trust and the Subsidy Account.

With respect to access under the enhanced structural adjustment facility and the interest rate, we agree with the staff views. Moreover, it is important that the structural adjustment facility continue to cater to those countries that do not need the enhanced version of the facility, or to countries that, although eligible for the enhanced structural adjustment facility, prefer to preface it with a structural adjustment arrangement for one or two years in order to have sufficient time to design appropriately strong structural measures, and to forge a domestic consensus. Also, countries eligible for the structural adjustment facility continue to face serious internal and external imbalances and need concessional assistance. We agree that third-year access for the structural adjustment facility be set at 20 percent.

On the question of additions to the list of eligible countries, this can be considered, as the staff suggests, at the next review, in light of demand and supply developments. The proposal to review the structural adjustment and enhanced structural adjustment facilities by March 1990 is acceptable to us, although we could support a June 1990 date also, in order to provide a more secure basis to assess implementation and monitoring under the enhanced structural adjustment facility.

Mr. Enoch made the following statement:

The current review of the structural adjustment and enhanced structural adjustment facilities comes at a most opportune time. A few weeks ago, the World Bank issued a major report, entitled "Africa's Adjustment and Growth in the 1980s," highlighting the first encouraging signs that growth with adjustment is not only necessary, but is also beginning to take place in some of the poorest countries of Africa. Equally, this Board discussion takes place at a time when immediate attention has--temporarily--been diverted toward the plight of the heavily indebted middle-income developing countries. This discussion is therefore a welcome reminder of the problems and challenges facing the low-income economies, mainly in Africa and Asia, and of the vital role that the Fund has been playing in helping these countries over the past few years.

The United Kingdom has been strongly supportive of both the structural adjustment facility and the enhanced structural adjustment facility. We firmly support the objectives of these facilities and remain convinced that, by undertaking programs supported by the structural adjustment and enhanced structural adjustment facilities, members give themselves the best chance of improving their growth prospects and of restoring, over time, a viable external position. In line with our commitment to the enhanced structural adjustment facility, the United Kingdom has of course offered the largest single grant contribution to the ESAF Subsidy Account.

The staff's recent informal survey suggests that over the next few months, 15 members with current structural adjustment arrangements might request enhanced structural adjustment arrangements. This gives considerable operational relevance to an issue that this chair has raised in a number of individual country discussions--the question of whether resources under the enhanced structural adjustment facility are being deployed as effectively as possible to strengthen members' adjustment efforts.

As the staff argues, the two facilities "share the common objectives of fostering growth and strengthening the balance of payments." Under both facilities, programs call for substantial progress toward the achievement of a viable balance of payments position during the three-year program period. However, there are also differences between the two facilities, differences in the amount of financing, the nature of monitoring procedures, and in both the strength and the timing of adjustment. Put simply, members following programs supported by the enhanced structural adjustment facility are generally expected to implement stronger and more far-reaching adjustment measures, commensurate with the substantial additional concessional financing made available to them. Thus, while access under the structural adjustment facility has hitherto been limited to 63.5 percent of quota, the weighted average commitment under the six programs currently supported by the enhanced structural adjustment facility has been significantly higher, at 166 percent of quota.

The broad macroeconomic objectives of programs supported by enhanced structural adjustment facility resources are set out in the Operational Guidelines (SM/88/148). In brief, these programs aim to create conditions "to achieve sustained economic growth at or near the country's current potential rate of growth and, indeed, to raise that potential rate over time while ensuring low inflation." In addition, programs should ideally aim to achieve "by the end of the three-year program period an external current account deficit that can be financed by normal and sustainable capital inflows." Moreover, given the uncertainties inherent to structurally oriented adjustment programs, programs supported by the enhanced structural adjustment facility should "provide for a buildup of international reserves or maintenance of sufficient reserves to facilitate the continued implementation of the program in the event that the impact of policy reforms on the balance of payments was smaller than expected or delayed." Finally, resources under the enhanced structural adjustment facility "might permit a current account deficit larger than otherwise possible...this could in turn lead to a higher level of investment."

Against this general background, it is worth looking at four specific questions concerning the six programs supported by the enhanced structural adjustment facility approved thus far. Have these programs aimed at an improved growth performance compared with what had been previously envisaged? Have they projected a stronger current account position at the end of the program period than was previously envisaged? Have they provided for a sufficient buildup of international reserves? Have they permitted, within the program period, a larger current account deficit than was previously considered feasible? And, if so, has this been reflected in a higher level of investment?

Given the need in many low-income countries for a significant restructuring of economic activity, a further question is relevant: to what extent have the six existing programs supported by the enhanced structural adjustment facility been expected to promote economic, and particularly export, diversification? This can be seen as a rough indicator of a member's "economic vulnerability"; reduced dependence on one or two traditional exports by the end of the program period would signal that substantial economic restructuring had been achieved, with the support of enhanced structural adjustment resources.

The staff's background paper suggests that the six current programs supported by the enhanced version of the facility have generally aimed at raising the rate of growth of real output. However, the paper acknowledges that there have been few differences between the growth projections of programs supported by the structural adjustment facility compared with the enhanced structural adjustment facility in the overlapping periods for four out of the five members that have had arrangements under both facilities. In the case of Bolivia, for example, over the period 1988-91, the average rate of growth projected under the program supported by the structural adjustment facility was 3.9 percent; over the same period, under the program supported by the enhanced structural adjustment facility, the forecast GDP growth rate has been reduced to 3.5 percent. In the case of Ghana, growth under the program supported by the enhanced structural adjustment facility for the period 1989-91 is projected at 5.0 percent--the same rate as was projected for this period under the program supported by the structural adjustment facility, and below the 6.4 percent recorded in the prior three years. Only in the case of The Gambia is growth expected to be higher under the program supported by the enhanced structural adjustment facility than was projected previously. The staff may be right to take a fairly conservative approach in projecting the impact of major structural reform measures on growth rates. Nonetheless, it is perhaps a little disappointing that the first few programs supported by the enhanced structural adjustment facility have not, in general, sought to raise members' GDP growth rates above those expected earlier. It is also worth recalling that the Operational Guidelines for the enhanced structural adjustment facility suggested that, in cases where a significant improvement in the rate of growth was not expected, it would be desirable to explain in the relevant staff paper "the reasons for the slow reaction of the economy."

While the design of programs supported by the enhanced structural adjustment facility may leave room for larger current account deficits in the short run, it is clear that for most low-income countries significant progress toward external viability by the end of the program period implies the need for some strengthening of the current account in relation to GDP. In this context, it is notable that in five out of the six cases under review, the current account deficit as a proportion of GDP is projected to be higher in 1991 under the current program supported by the enhanced structural adjustment facility than under the previous Fund program. Again, The Gambia is the exception--but with a current account deficit forecast to amount to nearly 20 percent of GDP by the end of the program supported by the enhanced structural adjustment facility, it is clear that even here, significant progress toward external viability is not in early prospect. Taking again the example of Bolivia, the ratio of the current account deficit to GDP at the end of the program supported by the enhanced structural adjustment facility is projected to be higher than it was in the three years prior to the program. The same is true of Malawi, Niger, and Ghana.

Of course, the size of a member's current account deficit in relation to GDP may be a poor indicator of its overall external position. Import compression prior to the implementation of a program supported by the enhanced structural adjustment facility or a temporary investment-induced deterioration during the program period might complicate simple comparisons and obscure underlying improvements. Nevertheless, large or deteriorating current account deficits do tend to raise questions about the strength of adjustment and the sustainability of policies, given the implied need for high or increasing external financing. In the case of Bolivia, for example, the staff paper suggests that exceptional financing will continue to be required beyond the program period.

In general, there seems to be little convincing evidence that members with programs supported by the enhanced structural adjustment facility are undertaking measures that are sufficiently far-reaching "to ensure stronger adjustment in the balance of payments over the medium term" compared to what had previously been envisaged under programs supported by the structural adjustment facility, extended Fund facility, or by stand-by arrangements.

In contrast, programs supported by the enhanced structural adjustment facility have been considerably more successful in providing for increased accumulation of international reserves. Although under prior structural adjustment arrangements, the level of reserves coverage was already programmed to rise, the impact of the successor programs supported by the enhanced structural adjustment facility has, in the case of The Gambia, Ghana, and Senegal, been to increase further the accumulation of reserves. Taking Ghana as an example, over the period 1989-91, reserves buildup under the enhanced structural adjustment facility is programmed to amount to $238 million, an additional $172 million compared to what had been programmed under the previous extended and structural adjustment arrangements over the same period. This additional reserves accumulation of $172 million is very close to the $177 million in additional Fund financing made available to Ghana under the enhanced structural adjustment facility. In effect, the main impact of the enhanced structural adjustment facility resources in Ghana's case has been to allow a commensurate increase in international reserves.

A similar pattern emerges in other cases. Reserves accumulation in Malawi under the program supported by the enhanced structural adjustment facility over the period 1989-91 is some SDR 25 million higher than was foreseen under the previous stand-by arrangement. The additional net inflow under the enhanced structural adjustment of SDR 50 million is used partly to finance higher reserves and partly--which amounts to the same thing--to help fill an ex ante financing gap. In the case of Niger, gross reserves are projected to increase by SDR 11 million over 1989-91, or an amount exactly equal to the net Fund inflow over the period; thus enhanced structural adjustment facility resources are used to repay the Fund and to build up reserves.

The main question arising from this analysis is whether it is possible to determine for each particular member what an "adequate" level of reserves coverage might be. Without such a definition of adequacy it is not possible to assess whether the programs supported by the enhanced structural adjustment facility have so far provided for too great or too small a buildup in gross reserves. In Niger's case, the staff has argued that reserves were already at "a relatively high level" prior to the program supported by the enhanced structural adjustment facility. After the marginal increase in reserves built into the program, reserves coverage by 1991 will amount to 4.7 months of imports. This needs to be compared with The Gambia's projected reserves coverage of 6.0 months, Bolivia's coverage of 6.0 months, and Ghana's of 4.1 months. But why should uranium-dependent Niger's reserves be comfortable at 4.7 months of imports, while Bolivia, requires 6.0 months? Why should The Gambia need 6.0 months coverage under the program supported by the enhanced structural adjustment facility, given that coverage of 3.5 months was regarded as "adequate" under the previous program supported by the structural adjustment facility. Since the target level of reserves coverage has a significant influence on the required level of access to enhanced structural adjustment facility resources, it is important to be clear about what determines the target reserves buildup. There are a number of factors conventionally considered to be determinants of the target level of reserves. (These include the vulnerability of a country's balance of payments to shocks, the opportunity costs of holding reserves, the speed and reliability of a country's adjustment to shocks, and the costs of having depleted reserves.) It might be useful to relate the extent of the target reserves buildup in particular programs supported by the enhanced structural adjustment facility to these determinants.

The staff highlights the fact that in four cases, programs supported by the enhanced structural adjustment facility have permitted some widening of the current account deficit relative to GDP during the program period. This indeed is fully consistent with the Operational Guidelines, provided that the greater short-term recourse to foreign savings is put to sensible use, and provided too that this widening is consistent with stronger external adjustment over the medium term. As Directors have already seen, there is little evidence one way or the other that the six current programs supported by the enhanced structural adjustment facility have been designed to produce stronger external adjustment over the medium term than was envisaged under preceding Fund programs. But what use has been made of the higher current account deficits?

In general, the presumption must be that higher foreign financing over the short term should be associated with higher investment, instead of with higher consumption. This indeed seems to be what is expected in the case of Niger. The higher current account deficit over the period 1989-91 under the program supported by the enhanced structural adjustment facility than was expected under the previous program supported by the structural adjustment facility appears to be at least partly attributable to the expected implementation of a major public investment program that had previously been delayed. The investment program is projected to contribute to an increase in Niger's gross investment ratio by 4 percentage points over the program period. For other countries with enhanced structural adjustment arrangements the picture is less clear cut. The Gambia's investment ratio is projected to decline during the period of the program supported by the enhanced structural adjustment facility, while for Senegal, the investment ratio is expected to fall initially before gradually rising back to its preprogram level. In both Ghana and Bolivia, the gross investment ratio is projected to rise over the program period; but in each case, the end-program ratio is lower than the level programmed under the previous structural adjustment arrangements.

Again, the evidence seems to be mixed. Investment ratios are generally projected to rise under programs supported by the enhanced structural adjustment facility, but often by only marginal amounts and, in three cases, to levels below what had been envisaged under previous Fund-supported programs.

The final crude indicator of strengthened adjustment under programs supported by the enhanced structural adjustment facility is the extent to which export diversification is expected to be achieved over the program period. In the absence of significant economic restructuring, many of the members eligible for enhanced structural adjustment facility resources could expect to remain highly vulnerable at the end of the Fund-supported program; in effect, the substantial concessional resources made available under the enhanced structural adjustment facility would merely have given these countries a temporary financial resilience, in the form of higher international reserves, instead of a long-term increase in economic strength through a reduced dependence on particular products and external concessional inflows.

Unfortunately, it is difficult to measure changes in the extent of export diversity, and is even more difficult to compare projections under programs supported by the enhanced structural adjustment facility with projections under earlier programs. Nevertheless, some evidence is available from earlier staff papers. In the case of Niger, for example, non-uranium exports are projected to rise by SDR 30 million over the program period; over the same period under the earlier program supported by the structural adjustment facility an increase of SDR 45 million was expected. As far as Ghana is concerned, under the enhanced structural adjustment facility, cocoa products are expected to represent 43 percent of export receipts by 1991, against a corresponding projection under the structural adjustment facility of 50 percent. In contrast, the proportion of Senegal's export receipts accounted for by groundnut products is projected to be higher by 1990/91 under the program supported by the enhanced structural adjustment facility than under the earlier program supported by the structural adjustment facility, the same being true in The Gambia's case.

None of these rough measures is decisive, and the general picture that emerges is quite mixed. It does, however, seem reasonable to conclude that there is no clear evidence that programs supported by the enhanced structural adjustment facility are expected to accelerate significantly the process of economic diversification compared to what had been expected previously.

This preliminary attempt to contrast the impact of programs supported by the enhanced structural adjustment facility with the expected effects of previous Fund-supported programs has not produced clear-cut results. On the one hand, the former have certainly been designed to promote reasonable GDP growth rates; they have usually envisaged some reduction over the medium term in external deficits as a proportion of GDP; and they have also generally looked for enhanced investment performance and significantly higher foreign exchange reserves. On the other hand, it generally does not seem that programs supported by the enhanced structural adjustment facility aimed to achieve higher growth rates or stronger adjustment than was previously envisaged in each country under earlier Fund-supported programs. The evidence tends to support the view that programs supported by the enhanced structural adjustment facility have used the greater availability of concessional resources to build up financial resilience in the form of higher reserves instead of to underpin more substantial restructuring or to support a higher level of growth than was previously expected.

These conclusions are of course only tentative, and a full picture has yet to emerge. For instance, in recent Board discussions, it has generally been recognized that quantification of the macroeconomic implications of structural policies is very difficult, so that an appropriately prudent approach might be to assume at the outset no effect at all; in this case, one would of course not see the impact of the structural elements of an enhanced structural adjustment arrangement in the initial projections, but might hope to see overperformance relative to the projections as the structural reforms took effect.

Notwithstanding these reservations, the Board's examination of experience with the enhanced structural adjustment facility so far has raised some interesting issues. There is the general question of whether the mix between financing and adjustment has been appropriate in the six current programs supported by the enhanced structural adjustment facility. Could future programs supported by the enhanced structural adjustment facility call for stronger adjustment by the member country, or have administrative and political constraints been reached already? More specifically, one might wish to look carefully at whether it is appropriate to reduce the vulnerability of structural adjustment programs by agreeing to provide substantial concessional resources up front to boost reserves. What is the optimal level of reserves accumulation that one should seek to achieve?

These issues are raised not with an intention of criticizing the six existing programs supported by the enhanced structural adjustment facility, but with the aim of further clarifying the issues as to how such resources can best be deployed, and what response one might expect to see in the recipient country.

Finally, referring to the questions raised in the staff paper, I agree that the cut-off date for approval of new enhanced structural adjustment arrangements should be extended by one year--to allow eligible members to establish improved track records under existing programs supported by the structural adjustment facility, to enable members to build up the required level of domestic consensus behind strengthened reform programs, to complete policy studies, and to implement where necessary key prior actions. Correspondingly, an extension of the drawdown periods under enhanced structural adjustment facility borrowing agreements should be sought; I hope that creditors will be flexible in this respect. I also agree that, subject to continuing review, the interest rate on enhanced structural adjustment facility loans should remain at 0.5 percent, and that a further effort should be made to raise the additional resources sufficient for the ESAF Trust to lend SDR 6 million at this interest rate.

As far as the structural adjustment facility is concerned, this facility continues to play a very important role for members in the early stages of adjustment. In these circumstances, I can support an increase in third-year access under the structural adjustment facility to 20 percent of quota.

Mr. Marcel made the following statement:

The current discussion is welcome and, indeed, I can only repeat that this chair attaches great importance to successful implementation of both the structural adjustment and enhanced structural adjustment facilities. Before coming to the heart of the matter, I would stress that my authorities view the Fund as having a key role to play in helping low-income countries in their adjustment efforts. We are aware that some observers consider that the problems of low-income countries are more related to development policies than to classical macroeconomic ones, and that the Fund should therefore not be too involved in such countries. We do not share this reluctance at all: indeed, low-income countries, perhaps even more than others, cannot afford to bypass macroeconomic adjustment. Furthermore, a stable macroeconomic environment is of the utmost importance in implementing and making effective the far-reaching structural policies that are indispensable for promoting growth. Therefore, these countries need the unique expertise of the Fund as well as the quality of its conditionality.

We are pleased to note that arrangements under the structural adjustment facility appear to have been successful in promoting growth, which is an invaluable outcome in view of it being one of the two main objectives defined at the establishment of the facility. The overall outcome, however, seems to have been more mixed in terms of the objective of making substantial progress toward the achievement of balance of payments viability; in fact, while the external situation of many countries under review has improved, only half of the structural adjustment programs were successful in achieving the targeted progress toward external adjustment. This outcome is not as surprising as one would think, given the deep-seated difficulties that low-income countries are facing. Furthermore, as pointed out by the staff, exogenous factors have played a significant role in several countries under review. Even so, the review clearly shows that the lack of success in reaching the targeted external objectives is explained largely by poor policy implementation.

I agree with the main means suggested by the staff for improving program implementation, and would like to stress the following points: particular attention should be paid to designing programs that can be implemented within the administrative capacity of a country; programs should focus on a few key issues, especially in cases of limited administrative capacity--with the notion of prioritizing reforms in specific structural areas seeming very useful in this respect; structural reforms should be aimed primarily at improving the efficiency of macroeconomic policies, thereby increasing the resiliency of an economy and its responsiveness to policy measures; and technical assistance is of paramount importance for helping countries to enhance their administrative capacity for conducting reforms, as well as for better identifying the areas of priority.

In view of these considerations, I agree with the staff's suggestions with respect to improving monitoring under benchmarks. Of course, it is also clear that the credibility of a program and its successful outcome hinges upon the quality of authorities' commitment and their willingness to implement far-reaching structural reforms. In this respect, an increased role for authorities in the policy framework paper process is essential to the better integration of the adjustment process within a country and to securing authorities' strong commitment. We agree with most of the staff's views on the policy framework paper and, in particular, fully recognize that a clearer identification of the key issue and a prioritization and sequencing of reform efforts is desirable. Also, we welcome the fact that, since the Board discussion on Malawi (EBM/89/12 and EBM/89/13, 2/8/89), there have been no instances of the staff presenting alternative balance of payments scenarios to the Board. In my chair's view, including such scenarios in the policy framework paper would not be consistent with the requirement that the paper becomes a document of reference on which the Fund and the Bank can base their reflections and operations. Furthermore, alternative scenarios would certainly not go in the direction of building a stronger consensus in a recipient country and would send a mixed message to donors.

With respect to the role of the policy framework paper in mobilizing resources, we agree that better coordination among donors is certainly needed and that the paper should be used for that purpose. However, this should not lead to a lengthening and bureaucratization of the policy framework paper process. Directors must keep in mind the objective of extending and disbursing structural adjustment facility resources as quickly as possible. And the policy framework paper must remain a document involving three main parties: the authorities, the Fund, and the World Bank.

We agree fully with the staff that the structural adjustment facility should continue to operate in parallel with the enhanced structural adjustment facility. Indeed, the structural adjustment facility has been instrumental so far in assisting countries in the early stages of structural reforms; moreover, having arrangements under that facility might be a useful step before embarking on a program under an enhanced structural adjustment arrangement. In this context, I fully agree to raise the potential access under third-year structural adjustment arrangements to 20 percent of quota, since the current amount of resources available for lending allows for such an increase.

With respect to the implementation of enhanced structural adjustment arrangements more specifically, it is clear, as suggested by the staff, that one cannot at this stage draw meaningful conclusions, given both the limited number of countries that have embarked on such arrangements as well as the short period of implementation.

As for the slow pace of utilization of enhanced structural adjustment facility resources, I agree with the staff that this fact should certainly not be overemphasized. Indeed, as recalled by the staff, this characteristic was equally apparent in the early phases of the utilization of structural adjustment facility resources. My chair also agrees that the standards of programs supported by the enhanced structural adjustment facility should not be compromised in an effort to promote more rapid utilization of the available resources; the high quality of such programs is crucial and must not be altered. However, every effort should be made to accelerate the conclusion of arrangements. In any event, I can only stress that this by no means weakens the case for maintaining the target of SDR 6 billion for ESAF Trust resources. We therefore fully support the staff's efforts to raise additional lending resources and further subsidies to enable lending up to the full potential amount of available resources at the 0.5 percent interest rate. In this respect, it is regrettable that the contribution of some industrial countries has not always been in keeping with their relative economic positions; we deplore especially that some industrial countries have not yet contributed to the facility.

With respect to the objectives and design of programs supported by the enhanced structural adjustment facility, most of my previous comments on the structural adjustment facility remain valid. However, it would have been useful if the staff, on the basis of experience with the first enhanced structural adjustment arrangements, had defined more precisely the specific characteristics of the facility compared with the structural adjustment facility in terms of the objectives, nature, and strength of the programs to be implemented. I would appreciate in particular further staff comments on balance of payments objectives and the need to achieve "substantial progress" toward external viability under programs supported by the enhanced structural adjustment facility. I can only repeat my authorities' view that programs supported by that facility should embody a more ambitious approach than under the structural adjustment facility in both the magnitude of adjustment measures and the timing of their adoption.

My chair can go along with the staff's views with respect to monitoring, access limits, and the interest rate, and would add that perhaps a somewhat more ambitious access policy could be implemented in the cases in which programs are sufficiently strong. Furthermore, the possible eligibility of Nigeria and the Philippines should be advisably considered at a later stage.

Also acceptable to my chair would be an extension of the cut-off date for access to the enhanced structural adjustment facility by one year only, with provision for further review, since that, in particular, could encourage members to move more quickly toward adopting programs supported by the facility. The extension should be accompanied by a similar extension of the cut-off date for the structural adjustment facility.

In my authorities' view, the fact that countries embark on programs supported by structural adjustment or enhanced structural adjustment arrangements should not prevent them, when possible, from benefiting from a stand-by arrangement. We acknowledge that the particular circumstances of some countries can make the implementation of a stand-by arrangement difficult; however, in view of the points mentioned at the outset of my intervention, low-income countries must continue to use the Fund's general resources.

Mr. Prader made the following statement:

The current discussion is especially important because these two facilities are targeted on the poorest member countries, whose social and political situation is of great concern to all of us.

Unfortunately, compared with their important purposes and concessionality, the implementation and overall outcome of the 29 programs supported by the structural adjustment facility appears to have been quite disappointing. The emergence of overdue obligations to the Fund is merely an extreme aspect of this rather mixed picture. The staff is surely correct in finding a need to rethink and improve the design and implementation of programs to prevent them from running off track immediately at their outset. We would have appreciated greater precision in the staff paper's account of the Fund's experience in implementing and monitoring the programs under both facilities. Knowing the exact number of programs involved would have been much more helpful to the Board's deliberations than such imprecise terms as "nearly half," "some of the cases," and "several other arrangements."

Addressing the first issues, of program design, monitoring, and implementation are indeed essential to improving these programs' outcomes. The basic and crucial element of Fund programs is the balance of payments objective--here, there can be no leeway. There may, of course, be cases in which the goal of substantial progress toward balance of payments viability is difficult to achieve within the three-year program period; but even so, this goal can never be abandoned, because it constitutes the essential justification for Fund involvement. We agree with the specific proposals made by the staff in this respect, and especially with the inclusion of an explicit discussion, in each request for the use of resources under the structural adjustment facility or enhanced structural adjustment facility of the progress to be made toward balance of payments viability and the time frame for its achievement. We also agree with the proposals aimed at ensuring the timely repayment of loans under both facilities.

The mixed outcome of programs supported by the structural adjustment facility clearly calls for reformulating the preparation, design, and monitoring of such programs in order to maximize the chances for successful implementation from the outset, which is in everyone's interest. If this requires more staff time, and if it takes longer to obtain a mutually acceptable program, Directors' current disappointment should be instructive about not hesitating to accept such necessities. We support the staff's precise proposals as valid; but since the staff's goal is to enhance the consensus behind these programs and to improve their implementation, we see no need for additional flexibility with respect to the interval between the date of Board presentation and the start of the program year. Implementing the staff's proposals should make the future need for such flexibility less, not greater. The staff could usefully comment on this point.

Again, the proposal to do more base work in preparing and obtaining consensus for future structural adjustment programs will assign to the policy framework paper an even more central role than it has at present, making it quite logical to expand that paper's use as a tool for mobilizing multilateral and bilateral resources. We fundamentally agree with this stronger emphasis, not only because adjustment programs can be better conceived and more easily implemented when more resources are available, but also because, as Mr. Fernando has put it, firmer financing assurances from other sources "can contribute to safeguarding Fund resources as well as those of SAF and ESAF." In the process, however, care must be taken not to create the impression that the Fund is trying to extend its conditionality to third parties: "bearing in mind the wishes of the borrowing country" is particularly relevant in this connection.

This chair wholeheartedly agrees with the staff's analysis and conclusions with respect to the use of structural adjustment facility and enhanced structural adjustment facility resources. Since we accordingly agree that to ensure the utilization of available resources, the standards for programs supported by the enhanced structural adjustment facility must not be compromised, we have no problem with extending the cut-off date for approving enhanced structural adjustment facility arrangements to November 30, 1990, nor with the corresponding extension of the drawdown periods under the ESAF Trust's borrowing arrangements. This solution permits enhanced structural adjustment facility conditionality to be kept intact, while giving sufficient time for future arrangements. We would be open to considering a further extension in due time, should that need appear. Also, there is no reason at this juncture to change the access policy to enhanced structural adjustment facility resources or the Trust loan interest rate of 0.5 percent.

With respect to the question of extending the structural adjustment facility past November 1989 in parallel with the enhanced structural adjustment facility, there are arguments on both sides of the matter. On the one hand, since the enhanced structural adjustment facility is the better instrument, there might not seem to be any case for continuing the structural adjustment facility. On the other hand, however, stands the powerful argument that resources should not lie idle--as Mr. Monyake puts it--especially when structural adjustment facility resources can help to prepare the ground for a later more effective utilization of enhanced structural adjustment facility resources in countries that are not yet ready, at the beginning of their programs, to undertake policy measures of the magnitude and scope normally required under the enhanced structural adjustment facility. We therefore support continuation of the structural adjustment facility in parallel with the extension of the cut-off date of the enhanced structural adjustment facility, and also support the proposed increase in the level of potential third-year access under the structural adjustment facility to 20 percent of quota.

Finally, the question of revising the list of countries eligible for structural adjustment facility or enhanced structural adjustment facility resources cannot be viewed in isolation. We therefore favor coming back to this issue when more information on its broader context is available.

Mr. Almeida said that there was no question that the programmed three-year growth rates under the two facilities were substantially higher than the rates achieved over the preceding three years, as they should be. Even so, the record of growth under second annual structural adjustment arrangements was clearly unsatisfactory; five out of the seven countries for which there was data had actual growth rates under the second annual arrangement lower than under the first. It was very important to know the exact reasons why that had happened, particularly as the expectation was that growth rates would accelerate; only 6 out of the total of 28 countries for which data had projected growth rates under the second annual arrangement lower than under the first. The staff was clearly underestimating the difficulties of resuming growth in programs supported by the structural adjustment facility.

It seemed apparent that the record of program implementation had been quite good when technical assistance had been in place, Mr. Almeida continued. Such assistance was an area in which the Fund should therefore not economize on its resources.

It was gratifying to note in respect of the structural content of arrangements under the structural adjustment facility that the main staff paper had drawn the important conclusion that a large number of benchmarks overburdened authorities' ability to ensure the completion of structural reforms, Mr. Almeida pointed out. He hoped that the staff was by now convinced that a concise and flexible program design was much better than having a long list of rigid structural components. Moreover, the policy framework paper process should be consistent with the two facilities' growth orientation, and it was therefore necessary to target growth so that the external financing requirements and benchmarks primarily reflected that orientation, instead of focusing on the "correct" policies per se. Moreover, the requirement that authorities take prior actions should be held to only when indispensable.

In view of the uncertainties with respect to the availability of the resources, he agreed with the staff proposal to extend the cut-off date for the enhanced structural adjustment facility for one year, subject to a review before the end of the current year, Mr. Almeida stated. He also agreed with the staff proposals with respect to the current access limit and the interest rate for ESAF Trust loans. And while he had an open mind with respect to the level of access under third-year structural adjustment arrangements, it would certainly be very confusing to extend such access in parallel with the enhanced structural adjustment facility. Furthermore, the Fund should stick with its basic criteria of making countries eligible for arrangements under the facilities in parallel with countries that were eligible for International Development Association loans. If the International Development Association list changed, so should that for the two facilities.

Mr. Massé made the following statement:

It is gratifying to have this opportunity to review structural adjustment and enhanced structural adjustment facility operations. These facilities are of growing importance to the overall operations of the Fund, owing not just to the amount of financing provided through these channels--although I do not want to underplay the importance of financing to recipient countries--but also to the adjustment that these facilities can foster. It is increasingly clear that recipient countries must undertake fundamental reforms extending beyond short-term macroeconomic adjustment in order to remove obstacles to growth and development and to re-establish their medium-term prospects.

My authorities generally endorse the conclusions and proposed decisions and wish to comment only briefly on a few of the issues raised. We endorse the extension of the cut-off date for the enhanced structural adjustment facility by one year, to November 30, 1990, and would consider a further extension if the need should arise. This extension will allow a larger number of countries to make use of the resources available and provide time to conclude well-designed programs under the enhanced structural adjustment facility. In this connection, extensions to the drawdown periods under enhanced structural adjustment facility borrowing agreements must be obtained, and we welcome creditors' willingness to meet this request. We agree that the interest rate on enhanced structural adjustment facility loans should continue at 0.5 percent, and that further efforts should be made to increase the resources of the ESAF Trust to allow for total lending of up to SDR 6 billion.

With respect to the proposed expansion of the eligibility list for assistance under the two facilities, the staff is correct that it would not be appropriate at this time, as it could lead to too rapid absorption of available resources and could thereby limit the Fund's capacity to meet the needs of the other eligible countries. Furthermore, expansion of the eligibility list raises complicated questions, including the uniformity of treatment of members. To facilitate future consideration, I would be interested to see further staff work on this question.

As for the proposed extension of structural adjustment facility operations, my authorities can go along with the staff's recommendation to operate that facility for a further year in parallel with the enhanced structural adjustment facility. Nevertheless, we are concerned that the conditionality of structural adjustment facility resources might be too soft, a concern that is reinforced by the emergence of overdue obligations on the facility.

Moreover, we wonder if the time has not come to consider folding or integrating the structural adjustment facility into the enhanced structural adjustment facility. Both facilities share the same objectives, including fostering growth and seeking substantial progress toward the achievement of a viable balance of payments position. In addition, there does not appear to be any substantive difference between the policy prescriptions under the two facilities, which is also noted at some length in Mr. Enoch's opening statement. The staff paper itself indicates on page 6 that it is difficult to compare the strength of structural reforms under the two facilities. Yet, the very existence of two facilities operating side by side suggests that there might be choices with respect to the required pace of adjustment, an issue on which the Board tends to have strong views when discussing the design of stand-by arrangements. The Fund, moreover, should try to impress upon recipient countries that too much time has been wasted in delaying necessary adjustments, and that it is essential to undertake reform to the limit of a government's implementation capacity. Offering a choice of two alternative facilities gives a contrary signal.

Differences between countries in their willingness to take prior actions and in their ability to implement reforms will continue, and appear to be the major argument for maintaining the two facilities. Nevertheless, it is not clear why these differences could not be taken into account by varying the access to enhanced structural adjustment facility resources. In addition, folding the structural adjustment facility into the enhanced structural adjustment facility would ensure that adequate conditionality is maintained in all uses of Fund resources. The substantial differences between the conditionality attached to the two facilities might inadvertently signal to eligible countries that the structural adjustment facility presents an easy option, requiring minimal adjustment, in contrast to the "hard" conditions attached to the enhanced structural adjustment facility. The staff paper seems to confirm this in its several indications that some countries prefer to use the structural adjustment facility instead of requesting access to the enhanced structural adjustment facility, because of the more relaxed conditionality of the former. It could therefore be inferred that the existence of an option between the two facilities is one important reason why the enhanced structural adjustment facility is not being used more readily and thereby that the existence of the structural adjustment facility is slowing down adjustment in some of these countries.

With respect to the policy framework paper and the process of its formulation, it is clear from the staff paper that both require strengthening in a number of ways. First, there is an obvious need to formulate better the accompanying structural adjustment programs by limiting the number of actions to countries' implementation capacity. As noted in Mr. Monyake's opening statement, "overambitious programs with complex features tend to undermine the political sustainability of adjustment." At the same time, there is a need to formulate better and to specify more fully the remaining reforms. This is clearly an area in which the World Bank must play an important role. In this respect, the implementation of programs could be improved by tailoring Fund and World Bank technical assistance in a manner that would enhance the capacity of borrowing members to design and execute key elements of adjustment programs. Moreover, there is considerable room to coordinate more closely technical assistance from development agencies.

As this chair has explained in the past, there is also a need to increase authorities' effective involvement in formulating the policy framework paper, thereby strengthening their commitment to the program. I can only echo Mr. Fernando's opening statement in this respect. We recognize and welcome the progress that has been made in this direction, but note that still more needs to be done. In addition, there is clearly room to improve aid coordination and to ensure that delayed disbursements from bilateral agencies do not lead to the derailment of adjustment programs.

Finally, I would like to note that all three opening statements for this discussion raise very important, albeit, quite diverse, sets of questions on which the staff could usefully comment.

The Chairman remarked that Mr. Massé's suggestion of merging the two facilities was important and carefully considered. Directors' comments on the matter would be useful in guiding management's views.

Mr. Finaish made the following statement:

The staff papers indicate that the record so far of Fund-supported structural adjustment programs has been quite mixed. In a sense, this is not altogether surprising. The Fund has had much more extensive experience with regular upper credit tranche arrangements; and even with them, adjustment programs have not always been successful. In the case of structural adjustment or enhanced structural adjustment arrangements, the difficulties are compounded by the comprehensive nature of the underlying programs and the more limited technical and administrative capacities of the particular group of members that have access to such arrangements. In addition, the social and political fragility of many countries eligible for structural adjustment facility resources, and the fact that their income and consumption levels are already quite low, place a great deal of pressure on policymakers to show positive results quickly, and limits their room for maneuver. While some of these difficulties may not be overcome entirely, it is important that one try to learn from experience and be ready, when necessary, to adapt the relevant policies and procedures needed to strengthen the effectiveness of the facilities.

It is important, moreover, to recognize that the impact of structural reform on growth over the short term is usually uncertain and, in any event, cannot be very significant. However, enhancing medium-term growth prospects should remain a key objective of structural adjustment programs. It is therefore crucial that such programs be designed in a manner that would allow for adequate levels of investment, while, at the same time, recognizing that the sustainability of reform is also dependent on the maintenance of acceptable levels of consumption. The promise of an increased standard of living in the long term is not always a sufficient motivation for sacrifice--or perceived sacrifice--when policymakers are under tremendous pressure to deal with immediate problems. To maintain adequate levels of investment and private sector consumption during the adjustment period, it is obviously necessary to ensure appropriate flows of external savings to complement the domestic resources released by fiscal adjustment. In this connection, it is important that Directors do not lose sight of the fact that the economic changes expected from countries under structural adjustment or enhanced structural adjustment arrangements are quite fundamental. In many cases, they involve an almost total reorientation of the economic system and institutions, which is not an easy task politically speaking, even in the best of circumstances. Thus the adequacy of external financial support is of critical importance if such reorientation is to succeed. One could even argue that what is at stake here is much more than individual countries being able or unable to solve their balance of payments problems, but the clear trend of the past decade in favor of economic liberalization. There is the possibility that without the necessary external support, the political support for this shift might indeed be reversed.

The staff is correct in suggesting that programs supported by structural adjustment or enhanced structural adjustment facility resources should aim at substantial progress toward balance of payments viability. Nonetheless, I would like to make two points in this connection. First, the economic circumstances and resource potential of countries are different; and what constitutes substantial progress toward viability has to be considered on a case-by-case basis, taking into account other adjustment objectives. Second, the staff has rightly indicated that, in some cases, it is simply not feasible to target substantial progress toward external viability without sustained debt relief and sufficient aid disbursements. This is, of course, a collective responsibility, and efforts should be increased to ensure the availability of such exceptional assistance.

As far as the scope of programs supported by the structural adjustment or enhanced structural adjustment facilities is concerned, a crucial issue is how to strike a balance between the desirability of having comprehensive programs and the need to avoid overloading them with remedies for all of the problems facing a country. The experience so far seems to suggest that perhaps more attention should be given to the latter consideration. The limited administrative capacity of a country sometimes makes it quite difficult to move on many fronts at the same time. It is recognized, of course, that various policies and sectors are interrelated and that one has to ensure consistency and maximize positive feedbacks. This also relates to the question of the proper sequencing of measures, which is not always easy to determine, given the inherent uncertainty in economic relationships and the differences between the effects of particular policies in different economies. On the whole, however, it seems that programs that are more focused on key policy areas are more likely to be implemented successfully. Also, focused programs will allow more staff resources to be directed at assisting a member in designing and implementing key policy reforms. Technical assistance could play a particularly useful role in this regard. I would also agree with the staff on the need to avoid excessive commitments under benchmarks.

The authorities' commitment to a structural reform program is obviously crucial for its success. We therefore continue to believe that authorities' involvement in the policy framework paper process should be a close one. The efforts that have been made recently to strengthen that involvement are welcome, but more needs to be done. This might imply added pressures on staff time; and if that is indeed the case, it might be worthwhile considering means of augmenting the staff resources devoted to the policy framework paper process. In judging authorities' commitment to the adjustment program on the basis of past experience, it is also important to keep in mind that a member's ability to adhere to a charted course should not be looked at in isolation. When program implementation is complicated by exogenous factors, for example, it does not necessarily mean that the authorities' commitment was lacking to begin with. In such cases, the ability of authorities to adhere to program policies, or to strengthen those policies if necessary, will require that additional financing be made available.

A shortfall in the level of external financing below that assumed in the program is an example. Although, admittedly, it is sometimes hard to judge cause and effect in this area, it would be difficult to deny that there have been cases in the past in which shortfalls in external flows have played an important role in the derailment of adjustment programs. In the background paper, the staff has attempted to identify cases in which financing shortfalls have occurred. But it seems that Table 10 on page 39 of that paper does not reflect the whole picture. The problem sometimes is not so much the total volume of external flows, but the form and timing of such flows. In some cases, the implementation of particular structural measures, in the exchange rate area, for example, requires that cash assistance be available without delay.

I agree with the staff that the policy framework paper process should be strengthened with the aim of improving the coordination of aid flows. We welcome the increased emphasis on the social implications of the adjustment process. The likelihood of successful implementation will be helped by an in-depth treatment of the social dimension in the policy framework paper, with a view to formulating mechanisms and policies for mitigating undesirable short-term implications of particular measures, especially for low-income groups in a population.

As for the operational issues raised by the staff, I would note that although the pace of utilization of enhanced structural adjustment facility resources has been relatively slow to date, and in view of the considerations noted by the staff--particularly the expectation that the pace of utilization will quicken in the period ahead--we agree that the target of SDR 6 billion for the facility remains appropriate.

We can support an extension of the enhanced structural adjustment facility cut-off date by one year, with provision for a further review, and hope that a corresponding extension of the drawdown periods under the ESAF Trust borrowing arrangements will be secured. We also agree that the structural adjustment facility should continue to operate in parallel with the enhanced structural adjustment facility during the extension period. Moreover, for the reasons given by the staff, we can support the maintenance of the Trust loan interest rate at 0.5 percent, and agree that it would be premature to consider changes in the access policy at this time. We can support the staff's recommendations with respect to third-year access under the structural adjustment facility and the disbursement of the incremental access of 6.5 percent of quota to those members that have already made a third-year drawing.

Finally, we could go along with the staff's suggestion to consider the question of eligibility in its broader context at the time of the next review. The staff has referred to two members that have expressed interest in becoming eligible to use structural adjustment and enhanced structural adjustment facility resources. There are indeed other members that have become eligible for International Development Association assistance and therefore might also be interested in being added to the eligibility list. The next review would provide a suitable occasion to consider all such requests, taking into account the utilization and availability of resources at that time.

Mr. Santos made the following statement:

On behalf of my authorities, I would like to thank the management and the staff for their efforts during the past two years in helping to mobilize donor support for the enhanced structural adjustment facility. My authorities also wish to thank all creditor countries that have responded favorably to those efforts and that have contributed generously to the funding and subsidization of the ESAF Trust. It is our hope that these cooperative endeavors, which have made the enhancement of the structural adjustment facility a reality, would continue, so that the additional resources required to enable the Trust to meet its lending target of SDR 6 billion at a 0.5 percent interest rate would be forthcoming.

It is now generally accepted that, through the enhanced facility, the Fund has complemented its traditional short- to medium-term balance of payments support with longer-term assistance that specifically addresses the structural issues facing its members, with a view to promoting growth. With the establishment of the structural adjustment and enhanced structural adjustment facilities, the Fund is better equipped to respond more effectively to the special needs of low-income countries--especially those in sub-Saharan Africa--and thereby to tackle their protracted balance of payments difficulties in the context of a medium-term program of structural adjustment that would foster growth and help to achieve balance of payments viability.

The staff papers for this review clearly indicate that the results of the Fund's recent attempt to assist low-income countries through the structural adjustment and enhanced structural adjustment facilities have been mixed--in a great number of cases, the structural measures envisaged could not be formulated concretely. As a result, their implementation and monitoring proved ineffective. In a few other cases, the aim of making substantial progress toward balance of payments viability and to undertaking measures for encouraging increased domestic savings and thereby increased investment proved elusive. In still other cases, overdue obligations to the Fund emerged during the program period.

The overall lesson from the operations of the two facilities is that the special needs of low-income countries are more complex than they have been made to appear, and that a deeper understanding of the predicament confronting these countries is needed on the part of the international financial community. It is striking to note that out of the large number of countries currently implementing programs supported by the structural adjustment facility, only five were able to graduate to programs supported by the enhanced structural adjustment facility. In this connection, we endorse the proposal that the structural adjustment facility should continue to operate in parallel with the enhanced version of the facility in support of continued efforts by those low-income countries that have not reached the point at which they are suited for the substantial concessional resources under the latter.

We continue to regard the common objectives under both facilities as appropriate, namely, fostering growth while making substantial progress toward the achievement of a viable balance of payments position over the medium term. As I have mentioned already, the results of the programs supported by the two facilities have been mixed; there have been successes and failures in moving toward the objectives of growth and external viability. On page 11 of the main paper, the staff has suggested a number of steps that could be taken to address the problems impeding the attainment of stated objectives, and has proposed conditions upon which the Fund could become involved in supporting programs with either of the facilities.

My chair is very concerned about these proposals, and would advise that caution be used in their implementation, should they be approved by the Board. The staff proposals appear to represent an unnecessary tightening of the conditionality attached to both facilities. Indeed, the excessive conditionality of the enhanced structural adjustment facility, about which we expressed strong reservations on previous occasions, seems to be one of the major reasons for the slow pace of resource use under that facility. Any move to extend the condition under the enhanced structural adjustment facility to the structural adjustment facility, as is apparent from the staff proposals, will further discourage potential users. It is difficult to see how tighter conditions would ensure the success of programs. A better understanding of the wide-ranging and deep-seated problems confronting these countries is essential and must be reflected adequately in the design of programs.

In view of the fact that program implementation has been hampered by excessive and complex benchmarks, midyear reviews, performance criteria, semiannual disbursements, and prior actions, it is gratifying that the staff is suggesting that some changes be made to these monitoring devices. We can go along with the staff's suggestions. We also agree that, to ensure effective monitoring under benchmarks, the number of benchmarks should be reduced, and the structural ones should be specified in a form that would avoid ambiguity. This implies that in the initial design of a program, the structural components must be identified as being within the authorities' administrative and technical capability to implement, and that emphasis should be placed on a few major structural issues whose implementation would assure the attainment of both macroeconomic and structural objectives.

As for the use of prior actions, we can understand that from the Fund's point of view, such actions cannot be avoided, particularly in cases in which authorities have to demonstrate an adequate record of program implementation, including a commitment to implement key structural measures. However, we expect that the use of prior actions will be restrained, and would be called for only in exceptional circumstances.

We have no difficulties with the staff's understanding on what the content of a policy framework paper should be, and with respect to the process for its formulation or preparation. In addition to the normal assistance given by the Fund and the Bank, the input of local aid agency representatives and of the United Nations Development Program is in order at an early stage of the process to help authorities in their efforts to develop the policy framework paper. However, we do not encourage the active involvement desired by donors in drafting the policy framework paper. Since the policy framework paper is the basic document of authorities, it should be geared solely to authorities' requirements, rather than being tailored to meet the operational requirements of donors.

With respect to the need to improve the policy framework paper process and thereby to help in the mobilization and coordination of external assistance, we welcome the importance that creditors and donors attach to this paper, which reflects national authorities' policy priorities. We have noted its use by the World Bank in its lending operations, and by most aid agencies in determining lending procedures. We still regard the policy framework paper as a useful document for establishing external donor commitments. In this connection, the staff analysis and conclusions show that shortfalls in aid disbursements have occurred in half of the programs supported by the structural adjustment facility. Therefore, the efforts being made by the Bank and aid agencies to standardize and improve disbursement and procurement procedures in the context of the Special Program for Africa are encouraging.

One of the lessons to be learned from the staff's assessment of the experience with operations under the enhanced structural adjustment facility is that utilization has been very slow, as indicated on page 14 of the main paper. There are eligible countries that continue to experience protracted balance of payments difficulties and yet are not using the facility. The staff lists a number of factors to explain the relatively slow pace of utilization so far, but factors more pervasive than those listed by the staff also contributed to slow utilization. These include concerns that were expressed earlier by my chair about excessive conditionality, complex procedures--including protracted negotiations between the staff and authorities--as well as difficulties in preparing programs strong enough to merit the support of the Fund. While the mixed record of implementation under both facilities is not surprising for the reasons given in the staff paper, the "emphasis that has been placed on maintaining high standards of program design and implementation under the enhanced structural adjustment facility" is appropriate. This calls for greater use of the Fund's technical assistance, not only to improve the policy framework paper content and process, but also authorities' capacity to implement the key elements of a program.

We have no major difficulties with most of the staff proposals outlined in Section VI of the staff paper, and indeed support them. However, on the following proposals, we have some reservations. With respect to item 3 on page 20, while we agree that the structural adjustment facility should continue to be an important instrument for the Fund in assisting eligible members, we are concerned that under the enhanced structural adjustment facility more policy measures are expected to be undertaken at the outset of a program period, and that greater assurance would be sought for the implementation of programmed measures. We have pointed out already that the Fund seems to be moving toward tighter conditionality under the enhanced structural adjustment facility and that this might tend to discourage users and thereby slow further the progress toward growth and external payments viability.

With respect to item 5, while we recognize that the objective of all programs supported by the structural adjustment or enhanced structural adjustment facilities is to aim at promoting growth and making, at a minimum, substantial progress toward the achievement of a viable balance of payments position during the three-year program period, experience shows that in attempting to achieve external viability in the relatively short period of three years, the growth objective is normally not attained. The reason for this, inter alia, is that adequate external financing for supporting growth efforts has not always been forthcoming, especially for countries that are facing debt problems. The uncertain situation with respect to the objective of achieving significant progress toward external viability and growth calls for increased external financial support, including a substantial reduction of the debt service burden confronting most countries eligible for the two facilities.

Under item 8, the staff states that there should be an assurance that a consensus is reached in support of a program in a borrowing country before it moves forward with a request for an arrangement. The staff could usefully elaborate on the procedures that could be used in determining whether such a consensus has been reached. We support the draft decisions.

The Chairman remarked that he was puzzled by Mr. Santos's use of the word "excessive," in two instances, to describe conditionality under the enhanced structural adjustment facility. Perhaps Mr. Santos might wish to elaborate on his view in light of the substantial work of the Board in defining such conditionality. Fundamentally, the function of conditionality was to ensure that countries could trigger and then sustain strong growth; weakened conditionality would reduce the chances for triggering such growth.

Mr. Santos responded that the requirements for the Fund being financially involved, as specified on page 11 of the main staff paper, had led him to believe that conditionality under the enhanced structural adjustment facility would become tighter and would further slow requests by countries for access to the facility. While his chair did not in general oppose the requirements described, he would note several particular problems that authorities faced. For instance, with respect to the need for significantly increased domestic savings, Mr. Fernando had highlighted the likely negative effects on short-term growth of efforts to increase savings primarily through the budget. African economies, moreover, had special needs or features related to their relative lack of flexibility, involving, inter alia, their slow supply side response to new incentives, low levels of monetization, and insufficiently rationalized financial systems. And while he agreed that the enhanced structural adjustment facility was for countries that had already undergone substantial adjustment, his authorities obviously had difficulty in comprehending why a strong adjustment record had to lead to even further reinforced adjustment. Those countries did not necessarily want conditionality to be relaxed, but did want greater understanding and increased time for the adjustment process.

Mr. Fernández Ordóñez made the following statement:

As I was not at the Fund when the enhanced structural adjustment facility was approved, I would like to take this opportunity to congratulate you, Mr. Chairman, on your efforts to create the facility. International achievements used to have many "parents," but in this case you are one who is clearly responsible.

The staff clearly tells the Board that the results of the implementation of the structural adjustment facility are mixed. The macroeconomic and structural policies under the facility were implemented inadequately in more than half of the programs. Even more worrisome is that, in some cases, overdue obligations to the Fund emerged precisely during the program periods. And with respect to the results of programs supported by the facility, although growth was above target, balance of payments objectives were not attained in most cases. The causes of these developments are very well explained in the staff papers, and I generally agree with the suggested actions.

During the current review, the Board should avoid the temptation of paying too much attention to the outcome of programs. Economic performance is what really matters, but, at this stage, Directors should not devote too much time to it because it is too early to express a well-founded judgment on the outcome of the programs. In addition, the performance of countries with structural adjustment arrangements is due not only to the underlying programs, but mostly to the external environment and, as such, is more related to the degree of success in the Fund's task of surveillance. This is why Directors should concentrate more on the design and implementation of programs than on their outcome.

The purpose of the two facilities is for Fund money to be used as an opportunity for facilitating the adoption of painful adjustment measures. The danger is that Fund money could be used to postpone adjustment measures inasmuch as countries do not feel the import constraint as sharply as they did before. The current review, by verifying whether measures have been adopted, must assess whether the opportunity provided by the facilities has been used, and the danger of postponing measures has been avoided. The main staff paper states that in more than half of the countries concerned, programs have not been implemented adequately. But, the paper also gives some explanations for this shortcoming, which I am going to stress.

On the one hand, the main staff paper shows how there is a clear correlation between poor results in the implementation of certain measures and a government's lack of administrative capacity. I suppose that if the paper does not devote much space to this question it is because its importance is obvious. The Fund knows how to deal with lack of administrative capacity, and it should act accordingly, first, by increasing technical assistance. In line with this, when the Board discusses the Fund's administrative budget next month, it should be more generous with respect to technical assistance provided to countries with arrangements under either of the facilities. Second, the Board should also continue to introduce into Fund programs only those measures that can be implemented within the administrative capacity of recipient countries' authorities, by reducing the complexity of conditions, and by concentrating monitoring on only a few key issues.

But, on the other hand, failure in implementation does not stem only from lack of administrative capacity, but also from a lack of involvement by governments in the design of programs. What Mr. Jalan described during the recent discussion on Bank-Fund collaboration (IS/89/3, 3/24/89) as "the third party" is extremely important for the success of structural adjustment and enhanced structural adjustment arrangements. This third party should, in fact, be "the first"; governments should be considered as the authors of these programs.

The question of authorship is a very important one because a large part of the poor image of the Fund in some developing countries comes not from the toughness of Fund programs, but from the idea that they are imposed. Unfortunately, this is a problem that will be very difficult to resolve. You, Mr. Chairman, recently expressed very well that the Fund cannot dictate measures to a sovereign country, but if this is true--and it obviously is--then what the Fund faces is a problem of perception. The Fund should make every effort to change this perception, because the efficacy of Fund programs is related closely to the perception of whether the programs have been proposed by countries or imposed by the Fund.

Also, it should be highlighted that shortfalls in aid disbursement have been detected in half of the programs. Deterioration in terms of trade and protracted weakness of countries were the main reasons behind the creation of the two facilities. But it would probably not have been necessary to create them if international aid to the countries concerned had not fallen dramatically during that decade. Nonetheless, the Fund has now mobilized resources from many countries through the enhanced structural adjustment facility, and cannot afford additional reductions in traditional sources of aid.

With respect to the proposed decisions, I can support the extension of the enhanced structural adjustment facility and its drawdown periods. It is wiser to approve this extension than to risk reducing the quality of programs for the sake of a rapid utilization of resources. The Fund should never be judged by the amount of resources that it provides, but by the adequacy of the programs that have been implemented. I also support the other proposed decisions.

The Chairman said that the "third party" in the policy framework paper process, referred to by Mr. Fernández Ordóñez, was most certainly the primary one in the sense of being served by the other two parties--the

Fund and the Bank. The parties were not therefore equal ones. Moreover, all elements of the policy framework paper process had to be in place for the Fund and the Bank to cooperate efficiently in fostering growth.

Mr. Grosche said that while the record of programs supported by the structural adjustment facility had been mixed, it would appear from the staff papers that the experience and results with both facilities had generally been encouraging. The high number of structural adjustment and enhanced structural adjustment arrangements in place provided ample evidence of the willingness and firm commitment of many of the Fund's poorest members to adjust their economies in order to achieve high and sustainable growth rates in the future. He broadly endorsed the staff's analysis and recommendations with respect to the design of programs under the two facilities.

While he would note that the number of enhanced structural adjustment arrangements outstanding and in the pipeline was clearly on the low side, that should not lead Directors to conclude that there was no need for that facility or that its requirements were too demanding, Mr. Grosche continued. It should be borne in mind that the enhanced structural adjustment facility had been in operation for less than a year, and that some eligible members were not yet ready to enter into arrangements under the facility. Moreover, the Fund should not be too hasty with the facility, given its specific nature, including, inter alia, its particular funding characteristics. As adjustment programs supported by the enhanced structural adjustment facility obviously had to be successful, the authorities and the Fund, if necessary, should take their time in concluding negotiations. His Government therefore viewed it as appropriate to extend the cut-off date for approval of three-year arrangements under the enhanced structural adjustment facility by one year, and expected that an agreement would be reached between the Fund and the Kreditanstalt für Wiederaufbau of Germany (KfW) on a similar extension of the drawdown period. He hoped that other creditors would also be flexible. Continuing, he agreed with the staff suggestion not to change the current policies with respect to the access limits and phasing of disbursements under the enhanced structural adjustment facility.

His authorities favored maintaining the structural adjustment facility in place for the time being, Mr. Grosche added. Third-year access should continue at its current level of 13.5 percent of quota and, accordingly, countries that had already received third-year disbursements should therefore not receive an additional one of up to 6.5 percent of quota. It was necessary to ensure that sufficient resources were available to disburse to countries for which the enhanced structural adjustment facility was not yet a suitable option. The proposed increase in third-year access would amount to a kind of windfall profit; and, in any event, the Fund's financial commitment at the time a first annual arrangement was approved took into account the overall mix of adjustment and financing. Furthermore, he would note his chair's agreement with the staff that the list of countries eligible for assistance under the two facilities should not currently be extended.

With respect to the appropriate number of benchmarks, it remained necessary to analyze carefully the macroeconomic situation and the underlying structural conditions before deciding on the structural measures to be undertaken by a member, Mr. Grosche went on. That process had obviously proven difficult and time-consuming, and he doubted whether it could be accelerated or facilitated by reducing the number of benchmarks. In general, the number and selection of benchmarks should be determined on a case-by-case basis, with the focus of attention being on the key issues. Nonetheless, one would have to take into account the trade-off between having a simple design of program and the capacity to monitor carefully its implementation.

The member involved in negotiations for arrangements under the enhanced structural adjustment facility should demonstrate visibly its commitment to adjustment, and had to forge a social consensus to lay the foundation for sustainable implementation of the program, Mr. Grosche stated. He agreed fully with Mr. Fernández Ordóñez that programs had to be those of the countries involved. And as it was indeed a cause for concern to note the staff's conclusion that a number of programs had derailed because of slippages in the implementation agreed measures, he agreed that the Fund should pay more attention to a member's institutional and administrative capacity. Technical assistance by the Bank and the Fund would appear to be a possible avenue for improving authorities' capacity to implement key elements of a program.

His authorities welcomed the greater role envisaged for the policy framework paper, Mr. Grosche noted. for that paper, and felt that some scope remained for improving bilateral aid mobilization and coordination for programs under those papers. He therefore urged the staff to study the issue further, and indicated that he was looking forward to the forthcoming paper that would deal with issues related to concessional balance of payments financing in Fund-supported programs.

It would be fair to say that creditors could expect that their special efforts to provide financing for the enhanced structural adjustment facility would be matched by strong and sustained adjustment efforts by borrowing countries, Mr. Grosche remarked. Financing under the enhanced structural adjustment facility, in particular, was for strong programs that held a promise that repayments would be made in full and in time.

Mr. Ismael made the following statement:

> I welcome this opportunity to review the operations of the structural adjustment and enhanced structural adjustment facilities, which were established specifically to provide financial assistance to the poorest member countries that are struggling with protracted balance of payments difficulties. I am in broad agreement with the staff assessment and can endorse the proposed decisions.

It is encouraging to note that in nearly half of the programs being reviewed, both macroeconomic and structural policies were implemented largely as programmed. Nonetheless, under several other arrangements, there were broad failures in the implementation of adjustment programs, exemplified by more expansionary fiscal and monetary policies than planned and the reversal of exchange system reforms undertaken earlier. It is all the more regrettable that, in some cases, overdue obligations to the Fund have arisen during the program period.

In view of the mixed record of program implementation, I can fully endorse the staff recommendation that the current high standard of program design and monitoring be maintained. To justify the Fund's financial involvement, there must be reasonable assurance that substantial progress toward balance of payments viability will be achieved in programs supported by either of the facilities. To improve the record of program implementation, I concur with the staff suggestion that authorities should be more fully involved in the design of programs, and that assistance be made available to enhance authorities' capability to implement Fund-supported programs. By this means, Fund-supported programs would be truly identified as a country's own program, instead of as one imposed by the Fund. It could therefore be expected that authorities would be more committed to implementing the program. I would also like to highlight the importance of a thorough study of a country's capacity to meet its future financial obligations to the Fund, to prevent any reoccurrence of arrears emerging during the program period.

Owing to the high standard of program design necessary for securing authorities' full commitment to strong structural reform and to the need to await the completion of necessary "prior actions," it is understandable that the enhanced structural adjustment facility has had a slow start and that substantial resources are expected to remain uncommitted at the end of the cut-off date of November 30, 1989. I can therefore support the recommendation that the cut-off date for programs supported by the enhanced structural adjustment facility be extended for another year. Similarly, I can support the suggestion that the two facilities be operated in parallel during the extension period.

Given the Fund's limited experience with the enhanced structural adjustment facility, I can also support the staff suggestion that the present access policy and access limits for the facility remain unchanged. However, in view of the forecast of a more comfortable position with respect to the availability of structural adjustment facility resources, I can support the recommendation that third-year access under that facility be raised to 20 percent of quota.

In view of the fact that shortfalls in aid disbursement from other bilateral and multilateral donors have arisen in about half of the programs supported by the structural adjustment facility, I urge the staff to reinforce collaboration and coordination with other aid agencies, as well as to further strengthen the policy framework paper process.

Finally, I agree with the staff that the current eligibility list for the two facilities be retained, and that the question of extending the list be considered in its broader context at the next review.

Mr. Ghasimi said that his chair wished to commend the management and staff for their continued and inexhaustible efforts and initiatives to mobilize the financial resources necessary to support the adjustment efforts of low-income countries. He also wished to extend his appreciation to all contributors to the enhanced structural adjustment facility, and was convinced that the successful results achieved so far would definitely motivate hesitant members to come forward and participate in further financing of the facility.

With respect to structural and macroeconomic policies, the staff had provided Directors with a clear assessment of the problems faced by many low-income countries in the process of adjustment, Mr. Ghasimi continued. It was evident that policy measures alone would not be successful if certain important elements to the success of a program were lacking. Indeed, that was the main reason behind the lack of complete success of several programs--mostly under the structural adjustment facility--which had encountered external financing shortfalls at their beginning. Therefore, it was crucial that all of the essential components of a program were present to ensure successful implementation of policies. It was also important that compatibility between the administrative and infrastructural setups of countries and the measures envisaged under the relevant programs was maintained as far as possible. Indeed, it was apparent from the staff paper that lack of complete success had also been due to the absence of such compatibility.

The staff had rightly acknowledged that some problems had emerged in the area of the design, implementation, and monitoring of programs supported by the structural adjustment and enhanced structural adjustment facilities, Mr. Ghasimi commented. With respect to the design of structural adjustment programs, the experience with the two facilities had demonstrated clearly the importance of the policy framework paper, which represented the foundation of the programs. And while he understood the rationale behind the preparation of the policy framework paper by the Fund and the Bank staffs during the early stages of the two facilities' operations, in view of the experience gained thus far, a more active involvement by authorities specifically involved in various sectors of an economy was needed.

It was gratifying that the staff was taking into consideration the social impact of adjustment programs on vulnerable segments of society, Mr. Ghasimi stated. However, he noted that the measures to alleviate the negative effect of programs were not always spelled out clearly. As negative social effects were some of the problems that contributed to the unsatisfactory implementation of programs, it was essential that they be addressed in all programs, and that remedial measures be defined clearly. In the same vein, more attention needed to be given to cultural, social, and economic variables in each country when designing the relevant adjustment programs. The timing and sequencing of the implementation of the measures envisaged in a program needed to be tailored to each country's situation, taking into account its administrative capacity and infrastructure. As had been emphasized previously by his chair, at least some small countries that were suffering from weak managerial and statistical capabilities were eligible for arrangements under the two facilities could be exempted from the full exercise of procedures under the facilities, and could instead benefit from some form of special or accelerated procedures.

He noted with respect to program implementation that most countries had encountered certain difficulties, because programs supported by the structural adjustment facility had contained a large number of policy measures, Mr. Ghasimi indicated. That had complicated the implementation of those programs, especially when countries were short of skilled manpower and when external financial resources were inadequate. Indeed, the more that programs were burdened by benchmarks and performance criteria, the more difficult they became to implement. Benchmarks and performance criteria had to focus on a few important policy measures that authorities could carry out easily.

The somewhat complicated monitoring procedures were clearly reflected in the current timetables for program implementation, containing large-scale structural reforms and measures, Mr. Ghasimi continued. Indeed, simple and relatively flexible procedures were needed to ease the work load of authorities and the staff.

Although his chair shared most of the conclusions reached by the staff, he wished to highlight that relatively few low-income countries were implementing structural adjustment or enhanced structural adjustment arrangements, Mr. Ghasimi said. Perhaps tight conditionality was the main reason preventing some low-income countries from using the resources of the facilities. In any event, it could hardly be denied that a much more flexible approach might enhance and speed up the use of the two facilities' resources.

The current interest rate for loans under the enhanced structural adjustment facility seemed appropriate and should remain unchanged, Mr. Ghasimi stated. Moreover, given the delay associated with the operations of enhanced structural adjustment facility, the pace of its use, and the comfortable amounts of resources available, his chair shared the staff's preference to extend the cut-off date for access to the facility for another year, or even beyond. In that connection, he called upon lenders to be more flexible in agreeing to the corresponding extension of the drawdown periods under the ESAF Trust borrowing arrangements.

The figures in the staff paper indicated that there was some room not only to maintain the current access limits of the two facilities, but to increase them, Mr. Ghasimi noted. Given the protracted financial difficulties of low-income countries, it would be advisable to increase access limits to make arrangements under the two facilities more attractive. In that context, and while his chair welcomed the staff proposal to raise overall access under the structural adjustment facility to 70 percent of quota, it had an open mind with respect to the timing of the use of that increase during the course of a program, in view of the need to take account of a country's requirements. As for access to the enhanced structural adjustment facility, the rationale behind the establishment of the facility demanded that there be some more flexibility in applying the level of higher access than there was at present.

Maintaining the two facilities' concurrency would continue to give the Fund interchangeable means of financing structural reforms in low-income countries with protracted financial difficulties, Mr. Ghasimi explained. Those facilities would continue to be the Fund's effective instruments for implementing structural and macroeconomic adjustments in many low-income countries, provided they were used flexibly and that the programs supported by them were tailored specifically to each country's problems and needs. He supported the proposed decisions.

Mr. Fogelholm made the following statement:

> The structural adjustment facility and subsequent enhanced structural adjustment facility were introduced to enable the Fund to respond effectively to the special needs of low-income developing countries. Both facilities constitute a crucial part of the debt strategy for these countries, in providing the framework for long-term structural adjustment while fostering the continued maintenance of reasonable growth rates. We welcome this review of the experience to date with the two facilities, even though it is probably too early to draw any firm conclusions on their operations, particularly the enhanced structural adjustment facility. However, I have noted with interest the approach adopted by the U.K. chair of comparing the projections under enhanced structural adjustment arrangements with those under other--mostly structural adjustment--arrangements. The results suggest that the enhanced structural adjustment facility makes little difference compared with the structural adjustment facility.
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> A more optimistic--but as yet unproven--view could be that, although the two facilities' aims are fairly similar, enhanced structural adjustment arrangements are nevertheless more likely to achieve the desired results. Indeed, the failure rate of

arrangements under the structural adjustment facility has so far been uncomfortably high. Thus, the staff should take a careful look at the questions raised by Mr. Enoch.

This chair can almost entirely endorse the description and conclusions presented in the staff paper. We support the unchanged access limits and a one-year extension of the cut-off date for new enhanced structural adjustment arrangements. Also, the interest rate should remain unchanged at 0.5 percent. And with respect to the continuation of the structural adjustment facility for an additional year and the raising of access limits, we can support the proposals if there is general agreement about this in the Board.

However, we are concerned that many countries prefer using the structural adjustment facility despite the substantially higher resource access under the enhanced structural adjustment facility. This discrepancy could be explained by the fact that the requirements attached to programs supported by the structural adjustment facility are somewhat less stringent than those supported by the enhanced structural adjustment facility, as noted by Mr. Monyake in his opening statement. Thus, from the Fund's point of view as an administrator of the trust funds, and in light of the mixed experience with programs supported by the structural adjustment facility, a good case can be made for the conditionality of the structural adjustment facility being intensified at the current juncture, thereby moving the facility closer to the enhanced version.

Only six of the countries eligible for enhanced structural adjustment facility resources have availed themselves of the facility so far. To the extent that this reflects careful preparation of adjustment programs and authorities' desire to mobilize political support for these programs, we are not particularly concerned. We would be concerned, however, if it transpires that a large number of developing countries do not apply for the concessional funds of the enhanced structural adjustment facility mainly because of the requirements associated with having an arrangement under the facility. Such a development would imply that an important element of the debt strategy--in this case, for countries eligible for the enhanced structural adjustment facility--would have become inoperative. For the time being, however, we assume that the Fund and authorities are utilizing time effectively, and that the staff projections with respect to the number of new applicants will materialize.

We should indeed draw on experience with respect to both the design and the implementation of programs supported by the structural adjustment facility and enhanced structural adjustment facility; and since the experience with arrangements under these facilities has so far been mixed, we welcome the staff's proposal that the guidelines for both facilities be revised. Before commenting on the issues for discussion, I would observe that the experience with programs supported by the structural adjustment facility clearly demonstrates that adequate macroeconomic policies remain the centerpiece of all programs.

Generally, we agree with the staff that to justify the Fund's financial involvement, there must, at minimum, be assurances of substantial progress toward balance of payments viability in all programs supported by the structural adjustment facility or enhanced structural adjustment facility. Even though I understand Mr. Fernando's concern about the issue, I cannot see any alternative to the staff's proposal, provided that there is reasonable assurance that the staff is correct in its theoretical and empirical analysis as regards the anticipated positive program results, and given that an absence of the programs would only create arrears, unless additional external financing is secured. Thus further adjustment seems fully warranted. Otherwise, Directors would approve a policy running counter to one of the basic principles of the structural adjustment facility and enhanced structural adjustment facility, namely, that the strength of a program itself is the guarantee, and, indeed, the only guarantee for repayment of the principal. In this context, we support the proposal to include in the relevant staff reports an explicit analysis of each country's capacity to meet its future obligations.

Experience shows that the design and implementation of programs go hand in hand. Consequently, it would be preferable when designing structural policies to focus on a few, key structural adjustment measures while maintaining relatively stringent program conditionality. In view of the large number of programs supported by the structural adjustment facility that have failed, and considering the accumulation of arrears, we support requesting strong prior actions from countries that have been unable to establish a satisfactory track record under previous or current Fund programs. Nonetheless, I agree with Mr. Fernando that a request for prior action should not be made automatically; it should first be made after the need has been established with respect to the measures in question.

The staff is correct that programs should focus on a few structural measures of particular importance. Also, front-loading of measures would probably increase the prospects for success. Likewise, enhanced monitoring, using fewer and well-defined benchmarks, as well as increased technical assistance for the implementation of policies, can positively support the adjustment process. I would, however, like to stress that although the Fund is in a position to assist authorities in many respects and at various stages of structural programs, the responsibility for success lies ultimately with the authorities.

Strengthening of the policy framework paper process is warranted both to increase authorities' involvement in the programs supported by the facilities in question and to improve coordination with other involved parties, including the World Bank, donor countries, and the international financial community. In contrast to Mr. Monyake, we believe that enhanced coordination of policies will increase the possibility for more effective utilization of scarce financial resources.

The staff is wise in being cautious about broadening the number of countries eligible to use structural adjustment facility or enhanced structural adjustment facility resources. Although the demand for enhanced structural adjustment facility resources has been somewhat less than anticipated, and the Philippines and Nigeria have become eligible for International Development Association assistance, we agree with the staff that an extension of the eligibility list would not be appropriate at this time. We would prefer to consider this issue in a broader context at the time of the next review.

Finally, my authorities would like to encourage the authorities in those donor countries that have not made contributions to the enhanced structural adjustment facility, or have made contributions that do not properly reflect their economic strength, to reconsider their positions so that the Fund can reach its original lending objective.

Mr. Lombardo said that nearly half of the 60 members eligible for arrangements under the structural adjustment facility had made use of the facility, and that six enhanced structural adjustment arrangements had been approved, five of them replacing previous structural adjustment arrangements. Based on the staff's survey, he noted that an important number of eligible members were interested in the near future in requesting the use of resources under the facilities. That certainly demonstrated the usefulness and appropriateness of the facilities. In that connection, the experience of Bolivia--the only country in his constituency that was eligible to use structural adjustment and enhanced structural adjustment facility resources--had certainly been very positive.

The shortfalls in aid disbursements in about half of the programs supported by the structural adjustment facility were a cause for concern, Mr. Lombardo indicated. Any effort to coordinate and enhance aid disbursements was a welcome step in the right direction, given that timely and adequate external support was crucial to the success of a program. The World Bank's work toward standardizing procedures with aid agencies was therefore welcome and could be further helped by greater involvement of donor countries in the policy framework paper process.

The slow pace of utilization of enhanced structural adjustment facility resources in the face of eligible members' urgent need for financial support was a good reason for extending the current cut-off date for access to that facility, Mr. Lombardo continued. His chair fully supported the extension of the cut-off date for an additional year at the current time, with the possibility of considering further extensions in light of the experience that would be accumulated by the next review.

The proposed increase in third-year access to the structural adjustment facility--to 20 percent of quota--with total potential access of 70 percent over three years, was a positive step, as it would maximize the potential use of resources under the facility, Mr. Lombardo commented. His chair was prepared to support the retroactive application of higher access to countries that had already completed the third year of a program supported by the facility.

It would be fair to consider Nigeria and the Philippines' interest in becoming eligible to use resources under both facilities and to consider the extension of eligibility to all members that became eligible for International Development Association loans, Mr. Lombardo stated. In view of the limited availability of resources under the facilities, his chair could understand the staff's desire to maintain the list of eligible countries unchanged. Even so, due consideration and a positive solution for the issue should be found to allow all low-income member countries fulfilling the conditions for becoming eligible for International Development Association loans to be treated uniformly, and to accommodate their substantial need for concessional assistance. His chair supported the proposed decisions.

Mr. Rye noted that he agreed with previous speakers' comments and that he would therefore refrain from making a statement.

Mr. Yoshikuni welcomed the opportunity to review the experience with the structural adjustment and enhanced structural adjustment facilities, and noted that they were the Fund's key instruments for helping to address the plight of low-income developing countries facing exceptional economic and financial difficulties. In particular, the enhanced structural adjustment facility had been created to encourage such low-income developing countries to initiate and to sustain far-reaching structural adjustment. His chair had therefore been strongly supportive of both facilities, and he hoped that the review would contribute to their further strengthening.

With respect to the objectives, design, and implementation of programs supported by the structural adjustment or enhanced structural adjustment facilities, his chair basically endorsed the thrust of the staff paper, and wished to stress the need for those programs to target substantial progress toward balance of payments viability, Mr. Yoshikuni continued. In particular, he would emphasize that programs supported by the enhanced structural adjustment facility should, in principle, be targeted at financing external current account deficits by normal and sustainable capital inflows, since that facility provided eligible countries with once and for all opportunities to receive concessional financial support for initiating and sustaining strong structural adjustment. In that connection, it was regrettable that some programs supported by the enhanced structural adjustment facility projected little progress toward external viability.

As for program design, his chair wished to emphasize the importance that it had attached to maintaining the security of enhanced structural adjustment facility resources, Mr. Yoshikuni noted. Maintaining such security was essential to Japan if it was to continue making loan disbursements to the ESAF Trust. In that connection, he regretted that some programs supported by the enhanced structural adjustment facility fell short of his chair's expectations.

Like Mr. Enoch, his chair was concerned that enhanced structural adjustment facility resources had been directed to financial restructuring, instead of to more substantive economic restructuring, Mr. Yoshikuni observed. His chair would also emphasize that risk should not be transferred from the General Resources Account to the ESAF Trust, and would thus urge the staff to improve program design further.

However, at the same time, there was an urgent need to facilitate the entry of eligible countries into enhanced structural adjustment arrangements by removing impediments, Mr. Yoshikuni went on. For instance, the policy framework paper process should be improved. His chair, moreover, agreed with previous speakers on the useful role that technical assistance would play in expanding the administrative capacity of recipient countries.

His chair endorsed the staff's view on the issues relating to the structural components of program design, and it attached particular importance to close collaboration with the World Bank, Mr. Yoshikuni remarked. His chair also agreed with the staff's view on the monitoring of programs supported by the structural adjustment or enhanced structural adjustment facility, and strongly supported the staff's efforts to reduce the number of indicative benchmarks.

In considering the issues pertaining to the policy framework paper process, he reiterated his chair's strong support for greater selectivity and prioritization in the papers, Mr. Yoshikuni continued. Concise coverage in policy framework papers would facilitate wider circulation of the papers and would ensure capital inflows from various sources to recipient countries. It was a cause for concern that complicated and extensive descriptions in policy framework papers might entail longer formulation and implementation periods and tangle the dialogue between donor and recipient countries. The policy framework papers should therefore focus on key policy areas succinctly, and be linked with other papers in order to satisfy the various needs of aid institutions. In that relation, he would emphasize that staff contacts with bilateral aid agencies should continue to be made in accordance with the institutional arrangements of donor countries. Also, it would be useful for countries not eligible for arrangements under the enhanced structural adjustment facility to prepare policy framework papers.

His chair supported the staff's suggestion to extend the cut-off date for the approval of new enhanced structural adjustment arrangements by one year, and could go along with the staff's suggestion to extend also the drawdown period under ESAF Trust borrowing arrangements by one year, with provision for further review, Mr. Yoshikuni said. The current access to and interest rates of the enhanced structural adjustment facility should be maintained.

The structural adjustment facility should continue in operation, and his chair would emphasize the need to ensure that conditionality under the enhanced structural adjustment facility was stronger than that under the structural adjustment facility so that the potentially higher access to resources under the former would provide eligible countries with incentives to initiate comprehensive structural adjustment, Mr. Yoshikuni commented. Continuing the operation of the structural adjustment facility would delay the transfer of uncommitted structural adjustment facility resources to the ESAF Trust, and the security of the trust would not be increased as had been envisaged initially. His chair therefore emphasized the need for the staff to intensify its efforts to raise additional resources for the enhanced structural adjustment facility. As the use of that facility would be discouraged by increasing third-year access to the structural adjustment facility, such access should be maintained at the current level of 13.5 percent of quota.

The Government of Japan had strongly supported and would continue to support the enhanced structural adjustment facility, Mr. Yoshikuni stated. As had been committed, Japan would continue its loan disbursement of SDR 2.2 billion and was willing to increase its loan contribution up to SDR 2.5 billion under certain conditions. It also wished to continue its front-loaded disbursement of SDR 300 million in grant contributions. Those contributions far exceeded Japan's proportionate burden and clearly illustrated its commitment to the enhanced adjustment structural facility.

Mr. Filosa made the following statement:

> The structural adjustment facilities have been designed to cope with the external adjustment problems of low-income countries that need funds on concessional terms to finance far-reaching structural reform programs. Thus, through the enhanced structural adjustment facility and the structural adjustment facility, the Fund assists borrowing countries' efforts to achieve the important goal of external adjustment while supporting sustainable growth. More recently, and in combination with the major industrial countries' proposals at the Toronto summit, it has also been envisaged that programs supported by the enhanced structural adjustment facility could be used as a

pivotal instrument in the debt strategy for low-income countries, as well as in the collaborative approach to the problem of clearing arrears to the Fund. If the Fund wants the structural adjustment facilities to achieve their original and new purposes, a high priority should be given to improving the standard of program design and to giving then a clear focus. In this context, progress toward balance of payments viability, while promoting growth through structural reforms, should be the essential target around which programs supported by the facilities should be built.

The staff appears to believe that the criteria for balance of payments viability can be met, although exceptional financial assistance will continue to be needed after the three-year period of enhanced structural adjustment arrangements. This seems to imply--in my view, correctly--a serious doubt about whether growth and balance of payments viability can be achieved simultaneously through a single instrument, such as the enhanced structural adjustment facility, unless it is supported by appropriate finance from other sources. The participation of the World Bank as well as official development assistance agencies is therefore essential. Viewed in this light, the catalytic role of the Fund is crucial for achieving the twin objectives of programs supported by the enhanced structural adjustment facility, namely, growth and balance of payments viability. Particular attention should thus be paid to the form and time frame of the financial assurances that will be required from donors and other creditors. In view of these considerations, I strongly support the staff suggestion that an explicit discussion of the progress expected toward balance of payments viability--given the growth targets set in each case, and the time horizon within which this is to be achieved--should be included in a program. In fact, without such a discussion, I cannot see how the enhanced catalytic role of this institution in support of structural adjustment programs can be assured; and how the financial risks to the Fund can be minimized.

More generally, the structural measures envisaged in programs supported by the facilities in question should be directed mainly toward the establishment of the framework necessary for the conduct of appropriate macroeconomic policies. This is the area of the Fund's primary responsibility, and the field in which the staff has well established its competence. The adoption of this basic principle will allow the number of measures contemplated in programs to be reduced, and will therefore facilitate their implementation. In this respect, I would like to stress that a reduction in the number of structural measures included in a program should not imply an easing of program goals, but only a simplification of program design and implementation. Given these reductions, it should also be possible to reduce the number of structural benchmarks and to concentrate Fund technical assistance in the areas in which it is most needed. However, I agree strongly with the staff's recommendation that programs should include as prior actions those measures that were not implemented as expected under previous structural adjustment or enhanced structural adjustment arrangements.

As far as program implementation and monitoring is concerned, it is important to note that experience so far demonstrates that that countries that have pursued internal adjustment successfully have also achieved external adjustment. Therefore, particular attention should be given to the time frame for implementing internal measures and to monitoring improvements in the internal situation. In this respect, financial benchmarks should be designed with the purpose of detecting policy slippages as soon as they emerge.

With respect to the policy framework paper, the fullest possible involvement of national authorities in that paper's formulation should be sought, as the primary responsibility for policy formulation should remain with them. Authorities should be aware of the difficulties connected with implementing programs supported by either of the facilities before endorsing the plan of action. This is made all the more important by the fact that structural measures, especially in the fiscal field, have a wide social impact and endanger established interests.

I agree with the staff's proposal that the cut-off date for programs supported by the enhanced structural adjustment facility should be extended by one year. In fact, my authorities would be prepared to accept a two-year extension. This would be particularly useful if programs supported by the enhanced structural adjustment facility programs were to be used as an instrument in the evolving debt strategy for low-income countries, as well as in the collaborative approach to the problem of the arrears to the Fund. Finally, I agree with the proposed increase in cumulative access under structural adjustment arrangements to 70 percent of quota, and concur that the interest rate, eligibility, and access policies followed so far with respect to both facilities remain appropriate.

Ms. Eran said that some important conclusions could be drawn and several questions arose from reviewing the implementation and the outcome of programs supported by the structural adjustment and enhanced structural adjustment facilities.

Over the short term, GDP growth rates seemed to have been unaffected by whether program policies had been followed strictly or not. Over the long term, however, there seemed to have been a significant effect: those countries that had deviated from Fund-supported programs and had followed expansionary policies had suffered subsequently a considerable decline in their growth rates. That conclusion could not be overemphasized. Furthermore, the balance of payments seemed to respond to macroeconomic policies more quickly than the growth rate did, and expansionary policies were thus reflected in an immediate deterioration in the external position.

The staff had noted that financial benchmarks had generally been effective in tracking progress in macroeconomic policy implementation, whereas structural benchmarks had not proven effective in monitoring the progress in implementing structural reforms, Ms. Eran continued. The staff's explanation on page 7 of the paper was that structural benchmarks "were not sufficiently specific." She wondered whether another reason could be that the Fund's expertise lay more in the macroeconomic than in the structural policy realm.

Another question related to the coincidence of a program and arrangement period, with the delay between the start of a program year and the date of Board presentation very often being quite long, Ms. Eran indicated. And while that delay was explained by the protracted process of negotiation, she wondered what was implied by a program year starting several months before the staff and authorities agreed on policies. Did it mean that the policies implemented by the authorities at the "start" had been eventually endorsed by the Fund?

The enhanced structural adjustment facility was preferable to the structural adjustment facility owing to its wider scope and stronger conditionality, Ms. Eran added. And while she agreed that the cut-off date for improving new enhanced structural adjustment arrangements should be extended to November 30, 1990, it did seem that the relatively limited use of such arrangements had been due partly to the availability of structural adjustment arrangements. In line with Mr. Massé's suggestion, her chair would support the incorporation of the structural adjustment facility into the enhanced structural facility, and wondered whether, if structural adjustment facility operations were to be discontinued, the freed resources could be shifted to the enhanced structural adjustment facility.

She supported the other conclusions and proposed decisions in section six of the staff paper, noting that keeping the interest rates of the facilities at 0.5 percent in a period of strong international interest rate increases did not necessarily mean that the interest rates would never be increased in the future if that became necessary, Ms. Eran added. In that connection, her chair wished to raise the question of whether having a fixed interest rate was the best policy. In a world of widely changing rates of interest, a fixed rate meant, on the one hand, that the amount of subsidy varied according to the timing of the use of resources and, on the other hand, that the financial planning of the Fund became more complex. Perhaps in the future the Fund should consider charging interest rates that, even if lower than market ones, would change concurrently with them.

Mr. Al-Assaf made the following statement:

The two staff papers provide a broad and much needed overview of structural adjustment facility and enhanced structural adjustment facility operations, and of the facilities' contribution to the twin objectives of growth and adjustment. On the whole, the record is a mixed one. With the benefit of hindsight, the main reason for that record appears to be the severe and protracted nature of the economic difficulties suffered by most of the countries using structural adjustment facility or enhanced structural adjustment facility resources. A second reason that might explain some of the shortcomings noted in a number of programs is the experimental nature of the structural reforms. While the educational process is still continuing, the suggestions in the main paper on possible modifications and improvements in the design and monitoring of the programs indicate how much the Fund has learned from experience. A major task at present should be to translate this experience into concrete action.

I can strongly endorse the proposal to limit the number of structural measures to the minimum necessary for promoting program objectives. I am convinced, especially in the case of programs supported by the structural adjustment facility, that overburdening countries' administrative resources with a vast array of structural reforms might have been counterproductive. Monitoring has been less effective than was expected in cases in which the description and quantification of structural policies has been imprecise. Understandably, in such cases, the commitment of authorities to adjustment as well as the willingness of external donors and creditors to support overambitious or insufficiently focused programs has declined.

However, the streamlining of programs, while useful, will not by itself guarantee a stronger commitment by authorities to the program. In this respect, more should be done to involve the authorities in the design of the program. In some cases, this might require a greater degree of flexibility in the selection of the relevant areas of reform and their sequencing. Such increased flexibility should be encouraged as long as the macroeconomic objectives of the program are not compromised.

As mentioned by the staff, there is a risk that improving the quality and efficiency of programs supported by the structural adjustment facility or enhanced structural adjustment facility might require additional staff resources. This is a risk that the Fund should not shy away from. Furthermore, additional time might be required for the phasing of reforms, especially since obtaining a consensus in the borrowing country is an essential feature of the process.

> I support the proposed extension of the cut-off date for the use of structural adjustment facility or enhanced structural adjustment facility resources to November 1990. I also support the continued operation of the structural adjustment facility in parallel with the enhanced structural adjustment facility and concur with the staff's views on such operations. I also go along with the proposed decision to raise the potential access for three-year structural adjustment arrangements to 70 percent of quota, to be extended to the two countries that have already received a third-year disbursement. Finally, I am in favor of maintaining the current policies with respect to access, access limits, phasing of disbursements, and the rate of interest, which should remain unchanged at this time.

Mr. Di welcomed the opportunity to review the operations of the structural adjustment and enhanced structural adjustment facilities, and noted his agreement with the reasons given by the staff for the relatively slow pace to date of the utilization of enhanced structural adjustment facility resources. Even so, he emphasized the importance of speedy and sound preparatory on programs supported by the enhanced structural adjustment facility. To achieve program objectives, not only was authorities' greater involvement and strong commitment required, but also sufficient staff resources needed to be arranged in a timely manner to study and formulate the policies under the relevant programs. In addition, technical assistance should be provided and designed specifically for such programs. And while high program design standards should be maintained, he stressed that unduly ambitious goals and overly complex procedures should be avoided. During the Board discussion on the three papers on structural adjustment for the spring Development Committee meeting (DC/89-4, Rev. 1, 3/20/89), his chair had greatly appreciated the invaluable lessons on the need for adjustment programs to be realistic. A "high standard" program meant one that was realistic and suitable to the specific circumstances of a country, in other words, a program that was pragmatic and practicable. Only when sound and appropriate preparatory work was done could programs supported by the enhanced structural adjustment facility proceed without delay, and only then could the pace of utilization of resources under the facility be accelerated in an efficient and effective manner.

The staff was correct that the case for the SDR 6 billion target for ESAF Trust resources was by no means weakened by the relatively slow pace of utilization thus far, Mr. Di remarked. According to the staff paper, if the enhanced structural adjustment facility was to continue in operation, most eligible members would be interested in qualifying eventually for arrangements under the facility. There were also a number of countries with relatively large quotas--including some that were currently ineligible, but that had expressed interest in gaining access to the structural adjustment and enhanced structural adjustment facilities--for whom support under the latter would be very desirable. Therefore, taking into account the potential use of enhanced structural adjustment facility resources, together with the use of resources that countries were expected to request before November 30, 1989, as well as what other countries would qualify for later on, potential utilization should be held to approximately the current level of loan commitments to the facility. His chair supported the proposed extension of the cut-off date for enhanced structural adjustment arrangements by one year, Mr. Di commented. In view of the expected pace of utilization of enhanced structural adjustment facility resources and the necessary preparatory work, extension of the cut-off date by one year would enable quite a number of countries to qualify for enhanced structural adjustment arrangements. At the same time, given the uncertainties with respect to the availability of additional resources, it was indeed prudent to extend the operation of the enhanced structural adjustment facility for one year, only, at the present stage. He had no difficulty with supporting the other proposed decisions.

Mr. Warner made the following statement:

The task that the Fund has set itself of designing, implementing, and monitoring growth-oriented structural adjustment programs in low-income countries facing protracted balance of payments difficulties is very complex and challenging. Indeed, the record reflects the difficulty of this task, as some arrangements have been more successful than others. In our view, this is a sign that the Fund and member states need to persevere in refining the design, implementation, and monitoring of programs under structural adjustment and enhanced structural adjustment arrangements to make them more effective in promoting growth and adjustment. We hope that the current discussion will contribute to that end.

With respect to program objectives, structural adjustment and enhanced structural adjustment arrangements should target the highest possible growth rate compatible with acceptable progress toward balance of payments viability and available financing. The appropriate trade-off between growth and payments objectives will, of course, have to be determined on a case-by-case basis. An adequate rate of growth is important, both to build political support for the adjustment effort and to generate the production and export earnings necessary for longer-term balance of payments viability. But clearly, the longer term objective--to which the program should contribute--must be to establish an economic policy framework that will be conducive to sustainable growth with financial stability and external balance over the long term.

By definition, structural reform must be an essential part of programs supported by the structural adjustment facility or enhanced structural adjustment facility. While establishment of a favorable macroeconomic environment remains the heart of Fund-supported programs, it is difficult to see how eligible countries can attain adequate levels of efficiency, growth, and eventual external viability if various structural problems are not resolved. Thus, it is incumbent on the Fund to address the key structural issues that bear on macroeconomic performance. The staff paper notes that structural performance criteria have been used in two enhanced structural adjustment arrangements; in view of the importance of structural reform in programs supported by the structural adjustment facility or enhanced structural adjustment facility, consideration should be given to using well-defined structural performance criteria more widely.

The first requirement for successful implementation of a Fund-supported structural program is the full commitment of the country concerned. This means that sufficient time must be allotted for thorough discussions between the Fund and borrower to reach agreement on the program, and also for internal discussions in the borrowing country to develop the necessary domestic support for the program.

We strongly believe that prior actions are useful in establishing a country's commitment to policy reform, especially in cases where a country's track record is poor, or where implementation under previous arrangements has been inadequate. Prior actions can also be important in developing momentum early in the life of a program, and in helping to ensure that the benefits of adjustment materialize as soon as possible.

With respect to program monitoring, we agree that benchmarks and performance criteria should be as specific as possible to avoid misunderstandings about what is expected under the program. The challenge is to strike an appropriate balance between having a sufficient number of structural benchmarks to advance and monitor the progress of structural reform, and a manageable number that do not overburden country authorities. This balance will have to be determined on a case-by-case basis. Even so, the appropriate course may not be to reduce the number of structural benchmarks, since this might dilute the structural content of the program. Instead, the better course might be to increase the administrative capacity of a government through technical assistance.

We support the proposed extension for an additional year of the November 1989 cut-off date for the approval of new enhanced structural adjustment arrangements. This extension will permit more countries to benefit from enhanced structural adjustment facility resources and give more time for them to prepare the solid programs suitable for support under the facility. Similarly, we can support a one-year extension of the structural adjustment facility cut-off date.

I would like to add parenthetically that we do not view the continued availability of enhanced structural adjustment facility or structural adjustment facility resources as any sign of the inadequacy of underlying programs. As I indicated at the outset, the problems at hand are difficult and have in many cases emerged over a long period of time. It is thus not surprising that it takes some time for countries to develop the comprehensive programs and political consensus needed to address these problems.

The current access limits and interest rate for enhanced structural adjustment facility resources remain appropriate. We accept the staff's proposal to increase the access limit for third-year structural adjustment facility resources from 13.5 percent of quota to 20.0 percent of quota on the understanding that this increase still leaves sufficient resources to accommodate possible requests for new structural adjustment arrangements from eligible countries that have not yet tapped the facility's resources.

Finally, it is troubling to see that overdue obligations have emerged in a number of cases. Not surprisingly, this has been associated with a failure to implement appropriate macroeconomic policies, and illustrates the necessity of having well-designed programs and the desirability of authorities taking prior actions to demonstrate their commitment and ability to follow through on a program of policy reform. The staff's suggestions for improving program design and thereby for avoiding potential arrears are helpful. We would also welcome a fuller analysis of borrowers' capacity to repay the Fund in staff papers on requests for arrangements under either of the facilities.

The Deputy Director of the Exchange and Trade Relations Department welcomed the widespread support in the Board for targeting more narrowly the structural content of programs supported by the structural adjustment and enhanced structural adjustment facilities. Also gratifying were the indications that Directors wished to see more technical assistance being used in formulating structural measures.

There had been a learning process with the two facilities, particularly in the early days of the structural adjustment facility and the policy framework papers, the Deputy Director continued. In the context of the facilities and World Bank operations, there had probably been a tendency to try to tackle too many structural issues in the policy framework papers. That had led in some cases to lack of focus and to insufficient priority to areas that really needed to be addressed early on in the programs supported by the two facilities. He believed that the staff had gained the necessary experience and that Directors' support would help in the effort to target structural measures more precisely.

It was not the intent that policy framework papers should result in the Fund acting as a "trigger" for the provision of financing, the Deputy Director noted. Donors had asked the Fund to become involved; and, indeed, the staff was constantly striving to find means of engaging the donors themselves in the process at an earlier stage. And although the Fund may not have been completely successful in this respect in the view of many donors, the policy framework paper process was improving with increased local coordination and a greater number of forums in which donors could present their views to the staff and to authorities--to be taken into consideration in subsequent revisions of the policy framework papers. The Fund's role was to ensure that the available resources were committed and known to the country in question, and that they were well planned in the context of the underlying program, so that programs would not be derailed by unexpected shortfalls in disbursements.

He would not put too much emphasis on the fact that there had been shortfalls in aid flows in about half of the countries with arrangements under the structural adjustment facility, the Deputy Director added. It was important to disentangle cause and effect in that area. Shortfalls had, in many instances, followed policy slippages, and demonstrably had not been a function of problems on the donor side, or of poor coordination through consultative groups or under the policy framework paper process. He would not want to convey the misleading impression that shortfalls in aid flows were the main cause of problems in half of the countries with structural adjustment arrangements.

In response to a comment made by a Director that the low number of structural adjustment and enhanced structural adjustment arrangements indicated that conditionality under the facilities was unduly restrictive, the Deputy Director noted that half of the countries eligible for such arrangements were making use of them. Moreover, it was the staff's provisional estimate, based on the survey conducted in January and February with Directors' help, that as many as 40 countries might have arrangements by the end of November 1990 if the cut-off date were extended and that most of those would be arrangements under the enhanced structural adjustment facility. This would in fact amount to a high degree of utilization, in light of Directors' indications that there were about ten eligible countries that had expressed no interest in using the facilities, and taking into account that there were several other countries that were currently ineligible to use Fund resources because of arrears to the Fund.

He certainly agreed that it would be inappropriate to require that any structural measures not implemented under previous arrangements be required rigidly as prior actions under new arrangements, the Deputy Director stated. New circumstances clearly had to be taken into account and be reflected in redesigned programs. However, it was important to keep in mind that the Board viewed prior actions as an important means of bringing a program back on track before the Fund provided further arrangements under either of the facilities.

Even though the staff had noted in its paper that there had been a few cases in which progress toward external viability had been uncertain, the Deputy Director remarked, the Board had given needed guidance during the current discussion by stating that the staff should continue to adhere to the definition of viability contained in the operational guidelines for implementation of the enhanced structural adjustment facility. If the Fund was to provide further resources, the staff would clearly have to show that progress toward viability would be achieved by the end of the program period. It was especially important to have feedback from the Board, however, in cases in which the staff had made every effort with the authorities to design effective programs, and yet had not been able to demonstrate that the external position would be near viability at the end of a three- or four-year adjustment program. If it were clearly inappropriate that further Fund resources be provided, ways would have to be explored for converting official development assistance to grants, or of improving the structure of debt and debt service so that viability could be achieved.

The opening statement by Mr. Enoch had raised interesting questions by making comparisons between programs supported by structural adjustment and enhanced structural adjustment facility resources, which he wished to pursue further on a bilateral basis with the U.K. chair, the Deputy Director continued. Even so, he would be concerned about drawing conclusions too readily from the comparisons presented in Mr. Enoch's opening statement. At every review of conditionality, the staff faced a recurring problem of making comparisons between the outcomes of Fund-supported programs and targets under the relevant arrangements, and, furthermore, with what might have been in some better set of circumstances.

He would be cautious in drawing conclusions from intercountry comparisons, the Deputy Director stated. For instance, reserves held by one country might not be as liquid as those held by another country; six months of reserves in one country might not be comparable to three months in another. In making comparisons between developments in the external current account, consideration should be given to changes in the terms of trade and to developments in the export markets of each country. It thus would be more productive to analyze individual country cases than to make intercountry comparisons.

The staff had held long discussions on whether in particular cases to recommend continuing with a program supported by the structural adjustment facility, or to move to a program under the enhanced structural adjustment facility, the Deputy Director continued. The availability of the two facilities had been useful, however, in giving the staff and management greater flexibility, which would likely also be useful in future cases. The existence of the two facilities had been especially useful in the inevitable cases with gray areas, involving the question of whether a country was ready for the enhanced structural adjustment facility, or, more specifically, whether further studies on structural issues were required before measures could be implemented, and whether the track record under a first or second structural adjustment arrangement had been sufficiently strong. There had been quite a few cases in which both the staff and the authorities had considered that a further arrangement under the structural adjustment facility would be the best means of establishing a track record that could be the basis for a sound program of action under the enhanced structural adjustment facility. Admittedly, the question cut both ways in the sense that without the structural adjustment facility, the parties involved might somehow have been more energetic in defining the issues.

The proposed third-year access under the structural adjustment facility of 20 percent represented a compromise between making the facility sufficiently attractive and ensuring that the resources in the Special Disbursement Account could accommodate all countries eligible for arrangements under the facility,, the Deputy Director went on. Even at 20 percent access in the third year, or 70 percent access over the full three years, the staff's calculations were finely balanced, in that they excluded the ten or so countries that had indicated no current interest in the facility. Under the new third-year access, the total possible use of resources would be SDR 2.67 billion, compared with about SDR 2.7 billion available in the Special Disbursement Account. There was a small possibility that a country would request access to the structural adjustment facility at a later stage, after the facility's resources had been exhausted, but that problem he hoped could be overcome by allowing the country access to the enhanced structural adjustment facility.

The Deputy General Counsel noted that the staff had considered the issue of the relationship between the structural adjustment facility and the enhanced structural adjustment facility at the time the latter was founded in 1987. One facility had been in existence for some time. The new facility had been envisaged with similar, but to some extent different terms. Consequently, in considering whether to merge or to keep the facilities separate, several factors would need to be taken into account, such as, inter alia, the yearly up-front disbursements under the new facility and the six-month disbursements under the older one, the need to keep the interest rates of the new facility under review, and to consider that countries with existing programs under the old facility were not all under the same annual arrangements. Those aspects needed to be considered because the existing facility in the Special Disbursement Account was governed by the principles contained in the decision in 1980 to terminate the Trust Fund, the Deputy General Counsel continued. Furthermore, it had been decided in 1987 that were the enhanced structural adjustment facility to be terminated, the resources of that facility would be transferred to the reserve account of the ESAF Trust.

Mr. Fogelholm inquired whether the complications just described would prevent any changes being made to either of the facilities, and not necessarily a merging of the two, because of the legal difficulties that would be encountered.

The Deputy General Counsel responded that there was certainly some scope for making adjustments and changes within the facility. The aspects that he had referred to dealt with the coexistence of two facilities and the question of the compatibility of changes with the principles established by the 1980 decision to terminate the Trust Fund.

The Deputy Director of the Exchange and Trade Relations Department, in response to a question by Mr. Santos, noted that it was always difficult to judge whether a consensus had been reached on a program in a borrowing country. And while the Fund staff was obviously limited in the range of its contacts within the borrowing country's government, one of the intentions of the policy framework paper had been the development of working relations with a wider range of policymakers. Owing to its encompassing, yet concise nature, which went beyond financial programming or short-term stabilization, the staff had hoped that the draft paper would become a focal point for discussion among the entire cabinet within a country or, at least, among all the ministers who might be involved with any of the the policies described in the paper. The policy framework paper provided a means of ensuring that officials were not taken by surprise at a later stage. It was most important that all issues be understood up front, requiring that authorities cooperate in distributing papers throughout the government and in having whatever discussions were necessary with the staff to understand the paper's specific implications.

Judgments regarding the extent to which the authorities were committed to a policy framework paper were partly a function of the number of measures that had been taken already and of the processes that had been set in motion to ensure that measures would be instituted, involving, inter alia, prior actions, and the degree of preparation and cooperation, the Deputy Director continued. The commitment of authorities could also be judged on more intuitive grounds, with the staff getting a sense of their counterparts' understanding and commitment to the program.

Mr. Santos said that the Deputy Director's comments seemed to confirm his point that it was very difficult, in operational terms, to assess a consensus behind a program, which, in any event, one would take for granted as soon as authorities agreed with the Fund on the program. He therefore wondered why the need for consensus was presented by the staff as a proposal.

The Deputy General Counsel said that the emphasis should not as much be on consensus but on further strengthening authorities' involvement in program design, so that whichever policymakers were thereby affected, they would be part of the process giving birth to the program.

The Chairman added that it made a decisive difference if a government considered a program its own. It was an art for the staff to facilitate that kind of attitude on the part of the authorities, and then to assess their actual commitment.

The Chairman made the following summing up:

Directors generally agreed with the staff's conclusion in respect to program design, implementation, and monitoring. They agreed that the general objectives originally set out for programs supported under the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) remained appropriate. A number of Directors observed that it had been unclear in some cases whether programs had targeted sufficient progress toward the attainment of balance of payments viability during the program period. They supported the specific suggestions contained in the staff paper to ensure that such progress could be achieved in all cases, including measures to achieve a significant increase in domestic savings in relation to GDP, early movement to appropriate levels for the exchange rate and other key prices, and action to remove key structural impediments. Directors agreed that all requests should include an explicit analysis of the country's capacity to meet future obligations to the Fund, and that programs should contain appropriate safeguards to prevent the emergence of overdue obligations to the Fund.

A few Directors also commented on the need to assure adequate levels of public and private investment, and the provision of social services, a point that I can assure you the staff will be instructed to pursue vigorously. Directors thought that intensified consideration of poverty issues and of means for alleviating possible negative effects of the adjustment process on the poorest segments of the population would contribute to a better implementation of adjustment measures under programs supported by these resources.

Directors were concerned that the record of implementation of SAF-supported programs had been mixed. In this regard, they felt that, to ensure the full commitment of governments to programs supported by the SAF and ESAF, authorities' involvement in program design should be further strengthened. They also thought that it was important to allow sufficient time to reach political consensus in the borrowing country before moving forward with a request for an arrangement. However, they encouraged the Fund staff, together with the Bank staff, to do its utmost to assist the authorities, as expeditiously as possible, to adopt programs warranting Fund support. Some Directors thought that additional staff resources might be necessary for this purpose.

Directors emphasized that programs must be both strong and realistic. Programs should not overtax the administrative capacity of the authorities and the view was expressed that the Fund's technical assistance might be utilized to keep that capacity sufficiently vigorous to enable them to maintain the full strength of the program. Directors therefore agreed that Fund programs should focus on the key structural measures that were of greatest importance for the achievement of a program's macroeconomic objectives. Directors also felt that increased technical assistance by the Fund would be helpful in improving the ability of members to implement ambitious programs.

Directors generally felt that the monitoring techniques being used under the SAF and ESAF were appropriate. They agreed that benchmarks should be limited to a few key variables and that structural benchmarks should be specified concretely, and, whenever possible, in quantitative terms. They indicated that the use of prior actions would be appropriate, under both facilities, particularly in cases in which the record of implementation under previous Fund arrangements was inadequate; and they also agreed that when key structural measures had not been implemented as expected under the previous arrangement, steps to rectify the situation could be incorporated as prior actions in the next annual arrangement. They felt that prior actions, particularly under the ESAF, could also be useful in helping to ensure implementation of programs where there was considerable uncertainty vis-à-vis the authorities' implementation capacity or ability to sustain the commitment. However, a number of speakers urged that prior actions be used sparingly.

With respect to the policy framework paper process and mobilization of resources, Directors stressed the need to further strengthen that process as a means for coordinating donor support and for assuring that adjustment efforts would be adequately supported, as well as to reinforce the ability of recipients to sustain their commitment to policy reform. They also agreed that the policy framework paper could be a useful vehicle for helping to identify areas where technical assistance might be necessary to help strengthen the capacity of the country to implement policy reforms.

Directors also welcomed the procedural changes that had been made to strengthen the involvement of the authorities in the preparation of policy framework papers, and urged the Bank and Fund staffs to continue pursuing that objective, keeping in mind the primary responsibilities of the country in that effort.

As for the use of SAF and ESAF resources, Directors noted the slow pace of utilization of ESAF resources to date. They urged eligible countries to adopt the strong growth-oriented programs that could be supported by the ESAF and that would enable a more rapid utilization of available resources. A few Directors were of the view that the pace of utilization was prima facie evidence that both the conditionality and the procedural requirements of the facility were excessive. However, the more general view was that maintaining strong standards was essential and that delays were not unexpected, given the need for the authorities to have sufficient time before embarking on major reforms.

Directors considered that the target of SDR 6 billion of resources for the ESAF continued to be appropriate, particularly in light of indications given by most eligible members that they were interested in eventually qualifying for ESAF arrangements. Speakers underscored the need to obtain, as soon as possible, the additional subsidy contributions necessary to permit the onlending of all available resources at an interest rate of 0.5 percent a year, as well as further contributions to raise the fully subsidized loan amount to SDR 6 billion. I would add that I feel quite encouraged by the promise of the words I have heard from almost all potential donors.

Directors agreed to extend the November 30, 1989 cut-off date for approval of three-year arrangements under the ESAF by one year. Directors noted that the agreements for the ESAF Trust Loan Account and associated lending would need to be amended to accommodate this extension; they expressed appreciation to lenders for their indications of readiness to agree to such amendments.

Directors agreed that the present access policy and limits for the ESAF should be maintained.

Directors generally felt that the SAF had provided an important instrument for the Fund to assist eligible members in the early stages of structural reform efforts and to encourage them to begin a comprehensive, multiyear adjustment program. Directors also noted that, while several additional members are expected to qualify for SAF arrangements by November 1989, some potentially important users at that time would likely remain without either SAF or ESAF arrangements. Therefore, to allow more countries to qualify for the use of SAF resources, Directors agreed that the SAF should continue in operation. The idea was put forward that attention should be given to the possibility of merging the SAF and ESAF, and the staff will look again at this question.

While Directors' views on the amount of third annual SAF disbursements varied, there was general support for the staff proposal to raise it to 20 percent of quota. Directors agreed to amend the SAF regulations to allow an additional disbursement to those countries for which the third-year SAF disbursements have already taken place.

Directors thought it prudent at the present time to maintain the current list of eligible members. The question of a possible expansion of that list could be taken up at the next comprehensive review of the facilities, in light of a full examination of the possible requests for expansion, and of the utilization and availability of resources at that time.

It was agreed that the next review of the operation of the SAF, the ESAF, the ESAF Trust, and the access limits for ESAF Trust Loans should be held not later than June 30, 1990.

Mr. Santos, commenting on the proposed amendment to the structural adjustment facility, mentioned that it would not seem fair to make further disbursements under the expanded third-year access contingent on a determination that a member was continuing to make a reasonable effort to strengthen its external position. Such a determination was made by the Fund and the Board at the approval of the arrangement.

The Deputy General Counsel replied that, while a judgment of the authorities' effort was indeed made at the start of a program year, the question dealt with a retroactive disbursement that would only be made if a full disbursement under the existing access limit figures of up to 13.5 percent had been made at the beginning of the year. Only in that case could the question of uniformity of treatment be raised; those cases in which a retroactive disbursement could be made were different from those in which a full disbursement was subject to the finding at the beginning of a program year. In any event, countries that went into a third-year arrangement under the structural adjustment facility with 20 percent access from the outset would be subject to the finding of whether the underlying program was adequate. As for the question of whether an additional disbursement should be made subject to a further performance review, the proposal in the decision was based on the same criteria that were applied to the original annual disbursement under the structural adjustment facility, namely, whether the country had continued to make a reasonable effort that would justify the receipt of the additional disbursement.

The Chairman commented that he was sure that no Director would support making a disbursement to a country that had obviously not maintained a reasonable effort to strengthen its balance of payments position. Doing so would run counter to the basic thrust of Fund policies; the proposed decision was reasonable and consistent with Fund policies. The problem being discussed was a theoretical one in a sense, given that after three years of implementing with a program supported by the structural adjustment facility, a country would usually continue on the path in light of the positive results that would likely have emerged.

Mr. Santos replied that the problem, in theoretical terms, remained that of different treatment in view of the staff knowing whether a country had a strong record of program implementation before deciding to grant retroactively higher third-year access.

The Chairman said that he did not consider that the proposal raised an issue of different treatment.

The Deputy Director of the Exchange and Trade Relations Department added that the decision in question referred to three countries only, namely, Dominica, Bangladesh, and Mozambique. The issue was a straightforward one, requiring that the Fund ensure that its resources be safeguarded whenever they were disbursed. Even if disbursements were made, in the current case, a few months after the approval of the third-year arrangement, the Fund still had to verify that the program was being carried out reasonably, so that its resources would be protected.

Mr. Fogelholm, referring to the proposed decisions, suggested that the access limits to the ESAF Trust, and the operations of that trust, the enhanced structural adjustment facility, and the structural adjustment facility be reviewed not later than June 30, 1990, instead of by the proposed date of March 31, 1990. That delay would prevent the work schedule from being overburdened before the spring meetings of the Interim Committee.

The Executive Directors accepted Mr. Fogelholm's suggestion.

The Executive Board then took the following decisions:

I. Structural Adjustment Facility, Enhanced Structural Adjustment Facility, and ESAF Trust - Review and Amendment

Pursuant to paragraph 4 of Decision No. 8757-(87/176) SAF/ESAF, adopted December 18, 1987, the Fund has reviewed the operation of the Enhanced Structural Adjustment Facility, of the Structural Adjustment Facility, and of the Enhanced Structural Adjustment Facility Trust. The operation of these facilities shall be further reviewed before June 30, 1990.

Decision No. 9114-(89/40) SAF/ESAF, adopted March 29, 1989

II. ESAF Trust - Amendment

The Instrument to Establish the Enhanced Structural Adjustment Facility Trust annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, shall be amended to read as follows:

a. In Section II, Paragraph 1(d), 1990 shall be substituted for 1989 to read as follows:

Commitments under three-year arrangements may be made during the period from January 1, 1988 to November 30, 1990.

b. The following sentence shall be added at the end of Section III, paragraph 3:

> The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

Decision No. 9115-(89/40) ESAF, adopted
March 29, 1989

III. Enhanced Structural Adjustment Facility - Amendment

The Managing Director is authorized to conclude agreements on the extension of commitment and disbursement periods for agreements pursuant to paragraph 3 of Decision No. 8757-(87/176) SAF/ESAF, adopted December 18, 1987, on behalf of the Fund.

Decision No. 9116-(89/40) ESAF, adopted
March 29, 1989

IV. Structural Adjustment Facility - Increase in Third-Year Access

Paragraph 2 of Decision No. 8240-(86/56) SAF, adopted March 26, 1986, as amended, shall be amended to read as follows:

> The potential access of each eligible member to the resources of the Facility as of March 29, 1989 shall be 70 percent of quota; no more than 20 percent of quota shall be disbursed under the first annual arrangement; no more than 30 percent of quota shall be disbursed under the second annual arrangement; and no more than 20 percent of quota shall be disbursed under the third annual arrangement.

Decision No. 9117-(89/40) SAF, adopted
March 29, 1989

V. Structural Adjustment Facility - Amendment

The following sentence shall be added at the end of paragraph 4(3) of the Regulations for the Administration of the Structural Adjustment Facility annexed to Decision No. 8238-(86/56) SAF, adopted March 26, 1986, as amended:

> (3) ...If the member's potential access is increased after all disbursements under the three-year commitment have been made, but before the expiration of the commitment, an amount not in excess of the balance may be disbursed to the member at its request, upon a determination

by the Fund that the member is continuing to make a reasonable effort to strengthen its balance of payments position.

Decision No. 9118-(89/40) SAF, adopted
March 29, 1989

VI. ESAF Trust - Review of Access Limits

Pursuant to Section II, paragraph 2(a) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust (the Instrument), the Fund as Trustee has reviewed the maximum limit on access to the resources of the Enhanced Structural Adjustment Facility Trust and the exceptional maximum access limit established by Decision No. 8845-(88/61) ESAF, adopted April 20, 1988. These access limits shall be further reviewed in accordance with Section II, paragraph 2(a) of the Instrument and in any event not later than June 30, 1990.

Decision No. 9119-(89/40) ESAF, adopted
March 29, 1989

3. ESAF TRUST - BANK OF KOREA - LOAN ACCOUNT - BORROWING AGREEMENT

The Executive Directors considered the staff paper on the proposed borrowing agreement with the Bank of Korea for the loan account of the ESAF Trust (EBS/89/36, 3/3/89).

Mr. Lim said that his Korean authorities were gratified to be able to report to the Board that an agreement had been finalized between the Bank of Korea and the Fund that would allow for a contribution of SDR 65 million to the loan account of ESAF Trust, together with a lump-sum grant of SDR 27.7 million to the Trust Interest Subsidy Account which, on current assumptions, should more than subsidize the interest rate on the full amount of the loan.

He especially wanted to take the opportunity to pay tribute to the hard work and dedication of the staff in the negotiations, Mr. Lim continued. The resulting agreement was a further example of the good record of collaboration between his authorities and the Fund.

Notwithstanding the considerable progress made by the Korean economy over the past decade, Korea obviously remained a developing country whose relative economic size remained small compared to many of the other contributors to the enhanced structural adjustment facility, Mr. Lim noted. Even so, the amounts agreed with the Fund reflected his authorities determination to make a significant contribution to the facility, a contribution in line with Korea's increasing standing in the world economy. In particular, and in determining the size of their contribution, his authorities had been guided, inter alia, by the relative position of Korea's share in calculated Fund quotas instead of by its share in actual current quotas.

More generally, his authorities recognized that Korea's increasing role in the world economy also involved the burden of greater responsibilities, including its more active participation in international financial institutions, a burden that they were committed to accepting, Mr. Lim commented. His Government was therefore gratified to be able to contribute to the funding of the enhanced structural adjustment facility, which was a worthy initiative by the Managing Director and one that his authorities hoped would play an important role in helping the adjustment efforts of many low-income developing countries.

The Chairman said that it was gratifying to acknowledge the contribution of a developing country to the enhanced structural adjustment facility. Korea's contribution was important in view of both the size of the country and the indication given of the authorities' continuing commitment to support the Fund. Mr. Lim was to be commended personally for his strong support for the facility since its launching, and for the important role he had played in convincing his authorities of the merits of the borrowing agreement.

Mr. Warner welcomed Korea's decision to provide resources for the enhanced structural adjustment facility, and pointed to his chair's special appreciation for Korea's recognition of its larger role and responsibility in the international economic system. He trusted that Korea's contribution was only the beginning of a series of decisions on its part to assume increased responsibilities.

Mr. Hassan said that Korea's contribution to the facility was welcome, and he requested that Mr. Lim convey to his authorities the special thanks of countries represented by his chair. With Korea being a developing country, he hoped that the current agreement would encourage other potential contributors to come forward and support the facility.

Mr. Adachi said that his chair very much welcomed the loan contributions from the Bank of Korea. The loan contribution of SDR 65 million coupled with the grant contribution of SDR 27.7 million clearly illustrated the substantial generosity of the authorities as well as their strong support for the enhanced structural adjustment facility. He wished to join the Chairman in commending Mr. Lim for his personal efforts. As the contribution by Korea no doubt added impetus to the successful operation of the facility, his chair heartily supported the proposed decision.

Mr. Al-Assaf associated himself with the Chairman's comments on Korea's contribution, and especially with respect to the fact that the contribution was from a developing country. The lump-sum grant to the Subsidy Account was also particularly welcome.

Mr. Santos concurred with the sentiments expressed, and noted the special contribution by Mr. Lim to convincing his authorities to make the contribution. He also noted the authorities' commitment to the Fund in the future.

The Executive Board then took the following decision:

Pursuant to Section III, paragraph 2 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the International Monetary Fund, in its capacity as Trustee of that Trust, approves the agreement for borrowing from the Bank of Korea in terms of the draft set out in the attachment to EBS/89/36, and authorizes the Managing Director to take such action as is necessary to conclude and implement the agreement.

Decision No. 9120-(89/40) ESAF, adopted
March 29, 1989

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/89/39 (3/29/89) and EBM/89/40 (3/29/89).

4. ADMINISTRATIVE BUDGET, FY 1989 - TRANSFER OF APPROPRIATIONS

The Executive Board approves the transfer of appropriations between categories of expenses in the Administrative Budget for FY 1989, as set forth in the memorandum attached to EBAP/89/76 (3/23/89).

Adopted March 29, 1989

APPROVED: October 24, 1989

LEO VAN HOUTVEN
Secretary