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Minutes of Executive Board Meeting 98/54

10:00 a.m., May 18, 1998

Contents

Decisions Taken Since Previous Board Meeting

Executive Board Attendance

S. Fischer, Acting Chairman
A.D. Ouattara, Acting Chairman

Executive Directors	Alternate Executive Directors
	S.M. Al-Turki
	J.G. Borpujari, Temporary
	C.X. O'Loghlin
	W. Szczuka
	R.J. Singh, Temporary
B. Esdar	R.J. Heinbuecher, Temporary
	W. Merz, Temporary
	A. Giustiniani, Temporary
	J.P. de Morais
	O.-P. Lehmussaari
	K.M. Heinonen, Temporary
A. Kafka	H.F. O'Brien
	J.C. Estrella, Temporary
	J. Prader
	J.A. Akhmetova, Temporary
K. Lissakers	M.S. Budington, Temporary
	S.D. Melese d'Hospital, Temporary
J.-C. Milleron	R. Fernandez
	E. Jourcin, Temporary
	M. Daïri
	A. Lushin, Temporary
	I. Zakharchenkov, Temporary
G. O'Donnell	J. Shields
A.S. Shaalan	M.H. Elhage
M.R. Sivaraman	N. Jadhav, Temporary
	C.M. Gonzalez, Temporary
J.J. Toribio	E. Rodriguez, Temporary
J. de Beaufort Wijnholds	Y.G. Yakusha
	E.J.P. Houtman, Temporary
	A. Barro Chambrier
	K. Kpetigo, Temporary
Y. Yoshimura	D. Fujii, Temporary
	C. Harinowo
	M.Z. Maatan, Temporary
	Han M.
	N. Eyzaguirre
	D. Merino, Temporary

A. Mountford, Acting Secretary
A.R. Linde, Acting Secretary
S.W. Tenney, Assistant

Burkina Faso—1998 Article IV Consultation; and Enhanced Structural Adjustment Facility—Second Annual Arrangement—Review; and Waiver of Performance Criterion
Staff representatives: Sacerdoti, AFR, Schadler, PDR

Annual Report, 1998—Change in Procedures for Covering Article IV Consultations
Staff representatives: Hole, EXR; Cheney, EXR

Also Present
IBRD: H. Tuluy, Africa Regional Office. African Department: E.A. Calamitsis, Director; R. Abdoun, P.A. Acquah, C.A. François, P.J. Lazar, E. Sacerdoti, E.J.G. Verreydt. European I Department: Y. Horiguchi, Deputy Director. External Relations Department: S. J. Anjaria, Director; P.C. Hole, Deputy Director; D.M. Cheney, J. Morrison, J.C. Roushdy. Fiscal Affairs Department: P.S. Heller, Deputy Director. Legal Department: R.C. Baban, R.B. Leckow. Middle Eastern Department: K. Nashashibi. Policy Development and Review Department: J.T. Boorman, Director; S.M. Schadler. Research Department: P.R. Masson. Secretary's Department: R.J. Munzberg, Secretary; P. Gotur, B.A. Sarr. Treasurer's Department: G. Wittich, Deputy Treasurer. Western Hemisphere Department: C.M. Loser, Director. Office of the Managing Director: M. Russo, Special Advisor; B. Christensen, J.A. Clément, O.J. Evans. Advisors to Executive Directors: J.A. Costa, S.S. Farid, P.M. Fremann, A.R. Ismael, M.F. Melhem, H. Ogushi, O. Otazú, Y. Patel. Assistants to Executive Directors: A.S. Alosaimi, S. Bakhache, T. Belay, M. Budington, D.A.A. Daco, N. Goffinet, H. Hagan, J.K. Honeyfield, K. Kask, M. Kell, J.P. Leijdekker, T. Presečan, Qi J., S. Rouai, R.P. Watal, A.G. Yaqub.

1. REPORT BY DEPUTY MANAGING DIRECTOR

The Deputy Managing Director, Mr. Ouattara, reported on his recent travel to Morocco, where he attended a conference organized by the Royal Academy of Morocco and held discussions with the authorities, and to Chad, the Republic of Congo, Gabon, and France.

The Deputy Managing Director made the following statement:

At the invitation of the authorities of the countries below, I visited Morocco, Chad, the Republic of Congo, Gabon, and France during May 3-15. Let me start with my visit to Morocco.

At the invitation of His Majesty King Hassan II, I visited Morocco during the period May 3-6 to participate in a conference on the Asian crisis in Fes organized by the Royal Academy of Morocco. I had discussions with several ministers of the recently appointed coalition government, including the Prime Minister, Mr. Youssoufi, the Minister of Finance, the Governor of the Bank Al Maghrib, and the Principal Counselor of the King, Mr. Azoulay. I also met with the press.

I would like to start by thanking Mr. Daïri who arranged this visit and participated in all the meetings. I was accompanied by Mr. Nashashibi, Senior Advisor in the Middle Eastern Department, and my advisor, Mr. Clément. The conference in Fes was very lively, and demonstrated once again how Fund participation in high-level regional conferences is important to correct misconceptions about our institution. The members of the Royal Academy are well-known personalities with different backgrounds from around the world, in particular from the Arab countries. I opened the conference by stressing the lessons that can be drawn from the Asian crisis, and following an interesting debate during which several participants surprisingly criticized the Fund for its lack of foresight and speed in responding to the crisis, a number of conclusions were drawn:

First, the current crisis should not distract from the spectacular achievements of the Asian countries, which in many respects could be a blueprint for developing countries; however, the export-led growth strategy should have been more closely monitored to avoid speculative bubbles and huge uncontrolled short-term borrowing.

Second, the role of the state should be redefined to avoid conflicts of interest between the government, banks, and large enterprises. The Asian miracle has been undermined by a lack of progress toward democracy and the absence of adequate checks and balances.

Third, the Bretton Woods Institutions need to revisit their approach to remain key players at the turn of the twenty-first century.

Fourth, the Fund should be more flexible with the countries struggling to implement democracy, taking due account of the fragility of the social fabric. In this regard, the social content of Fund-supported programs should be strengthened.

Fifth, the Bretton Woods Institutions should be more innovative to help the countries that could not benefit from the HIPC Initiative through, for example, more systematic debt/equity conversion.

My discussions with the Moroccan authorities took place at a crucial juncture in the history of the Kingdom. For the first time in 40 years, elections have brought the socialist opposition into power. One can sense great expectations among the population. The success of the democratic process would not only be key for Morocco, but also for North Africa as a whole, as well as sub-Saharan Africa. The new team is fully aware of the need to deliver before frustration sets in.

In my discussions, I emphasized the importance of maintaining a low budget deficit and framing policies in a coherent medium-term framework, with a clear prioritization of policy goals. In this context, I proposed that the staff visit Morocco as soon as possible—I hope in the next few weeks before the budget is approved in parliament—to help the authorities look at the medium-term framework. I was encouraged by the response of the prime minister, who indicated his willingness to follow such an approach in order to ensure a stable macroeconomic and financial environment. I stressed the importance of continuing to reduce fiscal imbalances and resisting pressures to increase expenditures, while giving full priority to social expenditures.

The new budget, which covers July 1998-June 1999, will provide an important signal as to the direction of government policies. I also noted that competitiveness should be monitored more closely, and that a more flexible exchange rate policy should be implemented. In addition, I encouraged the authorities to take full advantage of the post-election grace period to implement key structural measures that would make the economy more flexible, and thus less vulnerable to domestic and external shocks.

For my visit to Central Africa, I would like to start by thanking Mr. Barro Chambrier, who participated in all the meetings in Chad, in the Republic of Congo and in Gabon. I was accompanied by Mr. Clément.

During my visit to Chad on May 7, I met with President Idris Deby in a small village in the desert. The deep poverty of the population was quite striking. But, I was positively impressed by the seriousness of a number of key officials, particularly the minister of finance.

You may recall that the third annual ESAF arrangement for Chad covering the period April 1, 1998-March 31, 1999 was approved by the Executive Board on April 29, 1998. During the meeting, the president emphasized that Chad had suffered from 30 years of war and that peace has returned only recently. The country is in dire need of social-related expenditure and better infrastructure. The social indicators are alarming, and the president complained about the lack of continuity and cohesiveness in the design of structural reforms. He stressed, in particular, that schools and hospitals were being built without the appropriate recruitment of teachers and other personnel taking place. He also pointed out that 31,000 soldiers had been demobilized without the needed accompanying measures being fully in place, leaving many of them idle. Fortunately, they have been disarmed, but they are increasing the number of unemployed people. The president was very eager to buttress the social content of the program. He also stressed that he did not oppose privatization of Cotton Chad, in the cotton sector, but he was of the view that this operation should be carried out carefully and with well-defined accompanying measures, as the cotton sector employs about 1.5 million people—one-fourth of Chad's population.

The authorities were satisfied with the technical assistance provided by the Fund in the budgetary area, and for the reform of the customs administration. They hope that technical assistance from the Fund will continue to enhance the country's limited administrative capacity, and in this respect, they were very pleased to learn that a Fund resident representative will be posted in Chad soon.

Finally, the authorities inquired about the possibility of accelerating debt equity conversion, as Chad is not eligible for the HIPC Initiative because of its low debt burden, which has been the result of prudent financial management since independence and despite an environment of domestic strife.

During my visit to the Republic of Congo, which took place on May 8, I met with President Sassou Nguesso. I have never seen such a tragic scene of mass destruction as in Brazzaville. The whole city is virtually destroyed, including hospitals, schools, churches and mosques. Soldiers are still present in many places. Brazzaville has been pacified, but not the region of former President Lissouba. Communication between Brazzaville and Pointe Noire, the sole harbor, is very difficult. Basic goods such as medicine are scarce and administrative capacity has been severely disrupted. This is a clear case for post-conflict emergency assistance. A program to be supported by the Fund's emergency assistance will come to the Board for consideration sometime later, probably next month.

In my discussions with the president, I stressed that every effort should be made to promote reconciliation. The president's main goal remains to pacify the country, and then to start the reconstruction process, particularly the resumption of telecommunications, water, electricity, and transport. A donor's meeting is being arranged by the World Bank on June 16 in Washington, D.C.

During my visit to Gabon, on May 9, I met with President Bongo. I stressed the need to adhere fully to the adjustment program. You may recall that discussions for the third review under the Extended Arrangement for Gabon, approved in November 1995, could not be concluded in November 1997 because of substantial fiscal and credit slippages through end-September 1997, as well as uncertainties concerning the fiscal outlook for the remainder of 1997, the budgeted expansionary fiscal stance for 1998 and delays in structural reform. Preliminary fiscal and monetary data for 1997 suggest that the fiscal and credit slippages were partially reversed in the last quarter of 1997, following a staff mission there in November. Furthermore, there are indications that progress has been made by the authorities thus far this year in implementing the understandings reached last November with the Fund mission.

In view of the unfavorable oil price developments and prospects, I stressed that fiscal tightening was called for. I also emphasized the urgent need to rationalize public expenditure, with a view to improving the overall quality of the government's expenditure program. I also urged the president to secure the adoption of legislation and related implementing decrees without any further delays regarding the telecommunications sector, which was to be a performance criterion for end-June 1997. Regarding the forestry, mining, and labor codes, these are the key structural reform areas where substantial preparatory work has already been done. In addition, I noted that meaningful progress in administrative reform is critical. Those reforms are all the more important as they would help foster the development of the private sector and enhance job creation to address the problem of youth unemployment, which is a major problem in Gabon, particularly in Libreville.

As you are aware, President Bongo has graciously accepted that discussions between the staff and the Republic of Congo be held in Libreville until the situation in Brazzaville improves.

During my visit to France, I met with the Minister of Cooperation, Mr. Josselin, to discuss the situation in Central Africa in particular. I was also invited by the French international television channel, *TV5*, to discuss the situation in Indonesia and more generally the evolution of Asian countries. I was also interviewed by the French newspaper *Libération*.

I would like to extend my warmest thanks to Mr. Daïri and Mr. Barro Chambrier for the efficient organization of my visit, and I would like you both to convey my gratitude to your authorities for their hospitality and for the very fruitful discussions we had. I am certain that Mr. Nashashibi and Mr. Clément join me in saying so.

Mr. Daïri expressed his authorities' deep appreciation to the Deputy Managing Director for the presentation he gave at the Royal Academy in Fes, for his constructive comments, and for the fruitful discussions he and his team had with the new government. He also indicated his authorities' renewed commitment to work closely with the Fund in the context of their endeavors to achieve growth and the well-being of the Moroccan population.

Mr. Barro Chambrier said that his authorities were very appreciative of this visit, which had given them at the highest political level an opportunity to exchange views on some of their major economic and financial preoccupations. Social issues were of major concern to the authorities, and improving the standard of living remained their main objective. In that respect, his authorities in Chad, in the Republic of Congo, and in Gabon appreciated the understanding shown by the Deputy Managing Director in respect of the constraints they faced, and they were hopeful that this visit would contribute to better policy dialogue.

2. BURKINA FASO—1998 ARTICLE IV CONSULTATION; AND ENHANCED STRUCTURAL ADJUSTMENT FACILITY—SECOND ANNUAL ARRANGEMENT—REVIEW; AND WAIVER OF PERFORMANCE CRITERION

The Executive Directors considered the staff report for the 1998 Article IV consultation with Burkina Faso and the midterm review under the second annual arrangement under the Enhanced Structural Adjustment Facility (EBS/98/75, 4/21/98). They also had before them a background paper on recent economic developments in Burkina Faso (SM/98/88, 4/30/98).

Mr. Barro Chambrier, speaking on behalf of Mr. Yao, made the following statement:

Burkina Faso's economy continues to improve in response to the steady implementation of the adjustment and structural measures undertaken by the authorities, with the support of the Fund, the World Bank, other multilateral and bilateral donors and creditors. Real GDP is estimated to have grown by more than 5 percent in 1997, for the second year in a row, and similar performance is projected for the medium term. Inflation has been reduced to below 3 percent, and is expected to remain low, while steps are being taken to contain internal and external imbalances. Moreover, performance under the program was broadly satisfactory, with most structural benchmarks and performance criteria being met.

While my Burkinabé authorities are greatly encouraged by the progress achieved, they are well aware that much remains to be done. In particular, they recognize the need for further efforts towards fiscal consolidation. In this regard, they will continue to take steps to strengthen revenue collection and contain outlays. On the revenue side, efforts will be focused on further reduction of exemptions and broadening of the VAT to include the agricultural sector. However, the major improvement is expected to come from the ongoing efforts to improve tax and customs administration, in accordance with the recommendations of the FAD technical assistance mission. The authorities are therefore adding new offices to collect taxes, computerizing all border customs offices and conducting more VAT audits. On the expenditure side, the only increases envisaged, under the 1998 budget, are related to new recruitments in the health and education sectors, as well as higher investment in those sectors.

In the financial sector, the authorities have continued their efforts to strengthen the banking system with the privatization of the BFCI (Banque pour le Financement du Commerce et des Investissements), and the increase in capital of the BCB (Banque Commerciale du Burkina). A new private regional bank, the Ecobank, has opened for business. During 1998, it is the authorities' intention to continue these efforts and take the necessary steps to strengthen the savings and loan networks, with donor support. Monetary policy will remain prudent and consistent with the inflation and balance of payments objectives.

At this juncture of the adjustment process, structural reforms are viewed as a key element of the authorities' strategy to improve the country's economic performance. Indeed, the liberalization of trade and prices, following the change in parity of the CFA Franc have contributed to a doubling of cotton production, in the past three years. Similarly, cereal and other agricultural productions have also significantly increased, and the restructuring of enterprises in the transportation sector has resulted in an increase in the volume carried as well as in a noticeable improvement in the quality of service.

My Burkinabé authorities are very much encouraged by these developments and intend to continue implementing firmly the program of structural reforms, in order to raise the income levels of the population and foster the development of the productive potential of the economy. For 1998, their efforts will focus on (i) the privatization of the public enterprises, (ii) the reform of the civil service, and (iii) improvement in the social indicators.

As regards the privatization process, the second phase is almost complete, and the authorities, with the assistance of the World Bank, are in the process of preparing privatization plans for the remaining enterprises. Bids for several enterprises have been launched, and progress is being made towards the partial privatization of Air Burkina and for the privatization of airport operations, for this year.

On the reform of the civil service, the authorities' aim is to make the service more efficient and more responsive to the changing economic environment. In addition, the reform is expected to contain the wage bill. All the required legislations have been approved by the national assembly. It should be noted that the changes being implemented have been well discussed by all parties concerned and have received broad support. Greater use of contractual workers and promotion based on merit are important elements of the new legislation governing the civil service.

As regards social sector policies, the Burkinabé authorities are implementing measures to achieve the agreed social targets. The increase in budgetary outlays, which will allow for the recruitment of necessary personnel as well as the investment required, especially in the areas of health and education, should help to achieve these targets.

My Burkinabé authorities remain fully committed to the implementation of the policy measures envisaged under the program. However, they are concerned that the achievement of the medium-term objectives could be hindered by two developments, namely the Asian crisis and the implementation of the Common External Tariff, in the framework of the WAEMU. As regards the effect of the Asian Crisis, it should be noted that thirty percent of Burkina Faso's exports(mostly cotton) are to Asian countries, and a decline in demand from those countries could have an adverse effect on Burkina Faso's export earnings, thereby on the current account deficit.

The second concern is related to the shortfall in government revenue resulting from the implementation of the Common External Tariff (CET) in the framework of the WAEMU. While the authorities are confident that, in the medium term, this measure will have a positive effect on economic activity, thereby on fiscal revenue; in the short term, revenue may be lower, due to the dependency of Burkina Faso's fiscal revenue on trade taxes. In the meantime, the authorities intend to continue steadfastly their efforts to strengthen revenue collection and to broaden the tax base as well as to control expenditure. However, since the shortfall may not be fully compensated by the measures envisaged, the authorities are hopeful that additional external financial assistance would be available to support their efforts.

Mr. Jourcin made the following statement:

Burkina's economic and financial performance under this second annual arrangement has been very encouraging and the authorities' commitment to fully implement the program is commendable. Favorable results were attained in sustaining economic growth, in reducing inflation and in pursuing fiscal consolidation. Achievements in the area of structural reforms were fully in line with performance criteria and benchmarks, notably the privatization process and the civil service reform. To be brief, I have no difficulty in supporting the proposed decision and I welcome the authorities' determination to maintain this good momentum. I would only like to make a few comments, first on the implementation of the Common External Tariff (CET) in the framework of the WAEMU and, second, on social policies and poverty indicators. Actually, there are some links between these two issues.

As regards the introduction of the regional common external tariff, I share the staff's analysis and recommendations concerning the fiscal measures necessary to partially compensate the shortfall in government revenue. During the transitory period of implementation, between 1998 and 2000, the expected efforts on the fiscal front constitute a real challenge to the authorities. The staff report only indicates that the remaining revenue losses at the end of this transitory period, after the offsetting measures, might amount to about 0.9 percent of GDP. In fact, I would have preferred a clearer and more detailed presentation, for instance as was provided in the recent report on Senegal, showing first the amount of revenue losses before offsetting efforts, then the foreseen results of these efforts, and finally the remaining losses. In my view, such a presentation in the report would facilitate getting a better understanding of the overall process, as well as its magnitude.

Turning now to social policies and poverty indicators, staff refers to the World Bank's assessment of the situation in social sectors, and specifically in the health sector. I am in agreement with this assessment indicating that results remain weak in this area. Ensuring larger budgetary resources for the health sector should be a top priority for the authorities. This being said, a consistent approach to reaching this target requires above all succeeding in fiscal consolidation in order to make available sufficient and sustainable resources. This underlines once again that fiscal performance will be crucial.

Mr. Morais made the following statement:

Burkina Faso made substantial progress in its reform efforts in 1997 under the ESAF in the context of the second annual arrangement. Among the many achievements, I gladly note the positive results as reflected in strong economic growth, low rate of inflation and in the authorities' firm commitment to accelerate reforms in the areas of fiscal management, privatization and the civil service. I welcome the authorities' success in meeting the end-December 1997 structural benchmarks and performance criteria, with only one exception, and I support the completion of the midterm review and the requested waiver. Indeed, these achievements should help to safeguard the gains made since the start of the adjustment efforts in 1991 and to further improve the prospects for achieving sustained long-term growth with low inflation.

Despite these achievements, a number of problems remain—many that are difficult to tackle for a country such as Burkina Faso which is landlocked with few natural resources and poor ecosystem where climatic conditions are particularly difficult in much of the country. The task of improving the extremely low social indicators is also daunting. It is to be noted, however, that, notwithstanding these difficult circumstances, the country has made an encouraging beginning to improve the living standards of its population. I hope it can build on the progress made so far to bring about a growing economy and a viable external sector. Above all, this would require a sustained effort to increase outlays for investment, including in the social sectors. While the country cannot avoid relying heavily on concessional external financial support for sometime, it will be essential to continue to step up the domestic effort in strengthening fiscal management, encouraging a wider role for the private sector, and attracting needed foreign investment. In this regard, I welcome the measures being taken to improve the revenue picture, including the authorities' support for the adoption of a new investment code at the WAEMU level which, by curtailing exemptions, should help to partly offset the revenue loss that is likely to result from the phasing in of the common external tariff of the WAEMU during 1998–2000.

Burkina Faso is heavily dependent on a few primary commodities for export—with cotton representing over 50 percent of total export earnings in 1997. As a result, it is vulnerable to wide fluctuations in world prices. Diversification of commodities would be the right direction for countries in Burkina Faso's conditions. I would therefore welcome staff comment on opportunities to be exploited in this endeavor. Obviously, the need for diversification appears to be heightened by recent developments, such as those in Asia, that happen to be causing concerns about cotton exports.

I share the serious concerns expressed in Mr. Yao's statement about the adverse impact of the Asian crisis and of the envisaged implementation of the common external tariff in the framework of WAEMU on the attainment of the medium-term fiscal and balance of payments objectives. The revenue volume and export earnings are already too low in relation to the growth and poverty alleviation needs of the country. Without the timely and generous external support the authorities' efforts to address the many critical problems the country is facing, including the achievement of the social targets agreed under the HIPC Initiative, would therefore be extremely difficult.

With these remarks, I wish the Burkinabé authorities further success in their reform efforts.

Mr. Singh made the following statement:

First of all, we would like to join the two previous speakers and express our satisfaction to note that economic performance in Burkina Faso has continued to be good in 1997. Despite adverse climatic conditions, economic growth was robust and the inflation rate declined faster than expected. In addition, fiscal adjustment has been strengthened, an ambitious privatization program has been initiated and a comprehensive plan to reform the civil service has been approved by the National Assembly.

The ceiling on the increase in net bank credit to the government for end-December 1997 was, however, exceeded. This development seems to stem essentially from exceptional factors such as the organization of the African Football Cup of Nations. Although this overrun in investment may reflect a problem in the control of public spending that would need to be dealt with, we could go along with the staff's recommendations. Therefore we agree to grant Burkina Faso a waiver for the nonobserved performance criterion and complete the midterm review under the second annual ESAF arrangement.

I will concentrate my comments on two points, namely fiscal policy and the external position.

Regarding fiscal policy, we fully share the view of the staff that one of the most important objectives is to maintain momentum for reform, and to strengthen the fiscal situation, in order to allow larger allocations to the social sectors.

On the revenue side, the observation that revenue collection was significantly lower than anticipated during the first half of 1997 is worrisome. Although we welcome the corrective measures the government has put in place in the second half of the year, they only provide a temporary relief rather than a definite solution. Cutting delays in tax payments or requiring prepayment of income tax only brings forward forthcoming fiscal revenues, but does not generate any additional ones.

In order to achieve a stronger fiscal position, further steps need to be taken to broaden the tax system and strengthen its administration. In this respect, we welcome the government's intentions to improve the system of the single financial identification number and to strengthen tax collection procedures. These measures are especially urgent, since they take time to materialize and the introduction of the common external tariff in the WAEMU region will induce a sizable loss of fiscal revenue.

On the expenditure side, we agree with the staff on the need to conduct prudent policies and to pay attention to the efficiency of public spending, especially in the social sectors. The ambitious public investment program, whose financing has contributed to the higher than targeted net bank credit to the government last year, calls for special attention. The issue of recurrent costs should, in particular, be taken into account to avoid unexpected pressures on the budget in the years to come. We regret therefore that the authorities were not able to complete the review of the investment budget as planned, and we would like to urge them to take all necessary actions to complete this review as soon as possible.

Concerning domestic arrears, we welcome the fact that the domestic arrears reduction operation has now been completed. This represents a substantial achievement within the framework of the ongoing reform of the domestic payment system. We would, therefore, encourage the authorities to keep exercising caution in this area and prevent any new build-up of arrears.

Finally, on the external front, we would like to reiterate our concerns regarding the optimistic assumptions behind cotton export growth, especially in view of the difficult economic situation of major East Asian clients. Moreover, as Mr. Morais already pointed out, cotton is taking a growing share in Burkina Faso's exports, increasing the country's external vulnerability. Export diversification is therefore a major concern and would deserve greater attention than it receives in the staff's document.

In order to achieve such a diversification, significant efforts are still needed on the structural side to turn the economic framework into an investment-friendly one. The authorities should encourage the development of the private sector by reducing regulatory barriers, improving the legal and judicial systems and strengthening the financial infrastructure. It is only if Burkina Faso's economy grows stronger that the debt relief under the HIPC Initiative will truly constitute for the country an exit from its debt problems.

This being said, I wish the authorities good luck in the implementation of their reforms.

Mr. O'Loghlin made the following statement:

Burkina Faso has made further, welcome, progress through the past year or so. Apart from maintaining a commendable pace of economic growth and bringing inflation down rather faster than initially hoped, there has been solid progress on the structural side, in particular in the areas of privatization and civil service reform.

Even if the overall fiscal balance has weakened somewhat, the main counterpart to this was higher public investment, including the cost of restructuring the BN-B. Indeed, the primary balance on the government's current account--now in surplus to the extent of 4 percent of GDP—was considerably improved through 1997, reflecting a further useful increase in the revenue/GDP ratio and continued restraint in day-to-day spending.

Against this background, my authorities consider that the waiver sought for the end-1997 breach of the program requirement with respect to net credit to the government is merited, and that the present review should be completed.

Since I agree with the thrust of the staff recommendations for the future, I propose only to make a few points for emphasis.

Bearing in mind the extreme social deprivation to which available measures of life expectancy, literacy and poverty point, it is critical to make budgetary room for the investment necessary to strengthen provision in these areas. In this context, the planned further increase in the revenue ratio in 1998, combined with the intent—outlined in Mr. Yao's preliminary statement—that the health and education sectors will be the main beneficiaries, is most welcome. Firm implementation of the public service reforms which have now been approved by the National Assembly is vital, however, to assure more efficient and effective service provision generally, and in particular to support the desired improvement in social outcomes. And, in light of the potential revenue losses associated with the prospective adoption of a Common External Tariff by the WAEMU countries including Burkina Faso, the further widening of the tax base which staff advocate is also a key requirement if social goals are to be attained.

Turning to issues of economic development, Mr. Morais rightly noted the need for diversification of exports, having regard to the heavy dependance of Burkina Faso at present on key agricultural crops. The considerable progress to date on privatisation is to be welcomed as a step towards laying the basis for the enhanced private sector investment which seems critical to sustaining the country's recent record of solid economic growth. But it is sobering to note that, nonetheless, FDI remains quite low. While the measures adopted in recent times to strengthen the banking sector and the improved educational outcomes now being sought will help, clearly, more needs to be done to encourage private sector activity. In this context the staff view that it is now necessary to address the restructuring and privatisation of public utilities is appropriate. Mr. Yao's related assurances are encouraging.

However, we would urge the authorities to maintain the resolution they have shown to date over the balance of the program period, in particular for the benefits to economic and social development involved but also to ensure no shadow of doubt is raised with respect to the planned schedule for HIPC assistance. We wish the authorities every success in their endeavors.

Mr. Melese d'Hospital made the following statement:

Burkina has made solid progress in a number of areas since our last discussion, but at the same time there have also been some worrying slippages and delays, particularly as regards the external position and civil service reforms. On the positive side, the growth trend in output has remained steady at around 5 percent, and inflation is hard to discern with the naked eye. The fiscal revenue target for 1997 was met, and current expenditure kept in line with program targets, although higher than expected spending on investment and arrears, combined with payments to depositors of a failed bank, resulted in an overshoot of the ceiling on net bank credit to government. Importantly, manufacturing has been quite strong, as has production of cotton, the key export crop, which is up by 40 percent by volume. Further, investment has registered important gains, with total gross domestic investment now topping 26 percent of GDP, up from 19 percent in 1994. Finally, good progress was made in the vital areas of privatization and recapitalization of banks and of restructuring and privatization of public enterprises, although there is certainly more to be done.

On the negative side, savings has so far failed to mirror the felicitous trend in investment, as gains from higher public savings have been offset by declines in transfers. As a result, the current account deficit, which this chair identified in our last discussion as an area of weakness in the design of the present ESAF, has continued to surge in spite of the gains in cotton output, to 13.3 percent of GDP, whereas the program had envisaged a reduction to 11.5 percent.

Perhaps more importantly, reading between the lines of the staff report it seems to me that there has been much talk but little action on implementation of civil service reforms. We have been waiting a very long time for implementation of fundamental reforms such as increased emphasis on merit in consideration of promotions, greater reliance on contractual workers, and overall downsizing of the civil service, and after reading what was said in the staff report, I am still unsure as to when the waiting will end. Could staff and/or Mr. Barro-Chambrier elaborate on this very important issue? Mr. Yao in his preliminary statement says the reforms which have been agreed are "...expected to contain the wage bill." In the light of the 5 percent of GDP currently spent on wages, is containment really enough?

A key concern of the authorities for the future is the impact of the common external tariff (CET) on the fiscal position over the near-term. I would note that the change could have a not-insignificant transitory effect on the external position as well, providing a clear balance of payments rationale for Fund financing. Reform efforts along the lines proposed by staff will of course be an important part of a solution, but, should it be necessary, additional financial assistance in support of trade liberalization should be made available by the Fund, Bank and other interested parties to help bridge any remaining gap.

Finally, in response to concerns raised by Mr. Sivaraman in his recent note to the Board and to similar concerns voiced by Mr. Vernikov in our discussion of Bulgaria last Friday regarding the benefits of privatization, I would draw attention to the statement by Mr. Yao in his preliminary statement that "the restructuring of enterprises in the transportation sector has resulted in an increase in the volume carried, as well as in a noticeable improvement in the quality of service." This kind of reporting is extremely valuable in helping the Board to assess the impact of the policies we have prescribed, and I would urge other Directors to consider incorporating such assessments where appropriate in their preliminary statements.

Mr. Jadhav made the following statement:

Our chair would like to commend the authorities for strong growth performance of the economy, containing the inflationary pressures substantially, for improved fiscal performance and above all, for the progress made in the area of structural reforms including strengthening the banking system as well as accelerating the pace of privatization of public enterprises. We agree with the Fund staff assessment that net bank credit exceeded the program target essentially on account of one-off factors such as higher than expected investment expenditure and repayment of domestic arrears.

That said, we would like to emphasize that much remains to be done. The following areas need attention:

(a) The Burkina Faso economy has a long way to go in respect of human development. As indicated by the Human Development Report, 1997, as much as 36 percent of the population is not expected to survive to age 40. This survival deprivation record is not only very poor in relation to developing countries as a group, but it is also poorer than that for sub-Saharan Africa. Moreover, the deprivation also transcends to education with adult-illiteracy rate of 81 percent—nearly twice that of sub-Saharan Africa.

While some progress has been made in achieving the social targets agreed under the HIPC Initiative, a number of indicators remain disconcerting. For example, as much as 28 percent population is below the extreme poverty line; the rural illiteracy rate for women is at staggering 94 percent; the vaccination rates for children declined in 1997 and targeted increase in utilization rate of the health centers was not achieved in 1997.

These areas are symptomatic of the formidable challenges that lay ahead for the economy.

(b) The external payments situation has distinctly worsened for the economy, ironically after the three-year ESAF arrangement was approved in June, 1996. Current account deficit (excluding official transfers) at 13.3 percent of GDP in 1997 was virtually the same as in 1996, whereas the program had envisaged a decline to 11.5 percent. These levels are substantially higher than in 1994 when the deficit was placed at 8.7 percent. It is also disheartening to note that even by the year 1999, the current account deficit is projected to be higher than the pre-ESAF, i.e. 1995 level of 11.3 percent.

It may be noted that the deterioration in current account position of Burkina Faso took place in spite of the surge in cotton production and exports—cotton production almost tripled since 1993 and buoyed by cotton exports, total exports rose by a spectacular 24 percent in 1997. The deterioration would have been considerably worse had the cotton exports not expanded so significantly.

With the excessive reliance on cotton exports which comprised as much as 51 percent of total exports in 1997, the balance of payments situation remains vulnerable, especially in view of the fact that the crisis ridden Asian economies seem to have been major importers of cotton from Burkina Faso. Some amplification of this aspect buttressed by relevant data would be useful so as to adjudge the downside risks. We would appreciate comments from the Fund staff in this regard.

(c) We are encouraged by the significant progress made by Burkina Faso in implementing the program to restructure and privatize public enterprises in Phases I and II. In our view, this would help promote a wider role for the private sector and attract foreign investment. As such, we agree with the suggestion in Staff Appraisal that authorities should address the next step in this regard relating to the public utilities companies.

With these remarks, we wish the authorities continued success in their policy endeavors.

Mr. Fujii made the following statement:

I would like to join previous speakers in welcoming the fact that Burkina Faso's economy is continuing its broadly satisfactory performance under the ESAF program. It is encouraging that the authorities' efforts toward macroeconomic stabilization and the restructuring of economy have contributed to such favorable economic developments, including high growth and declining inflation. At the same time, it is also true that many reforms still need to be made. Burkina Faso is one of the poorest countries in the world, and the authorities must make further efforts on this front. Improving external viability is also an important challenge and, in this regard, it is important that the authorities remain fully committed to the program in both the macroeconomic and structural areas toward the completion point under the HIPC Initiative.

I support the completion of the mid-term review under the Second Annual ESAF. I would like to make a few comments on three policy issues: the promotion of investment, the enhancement of revenue, and social policies.

First, it is crucial for Burkina Faso, as for other sub-Saharan economies, to increase investment rates in order to achieved sustained high growth. In this regard, I am encouraged by the fact that public investment has increased significantly in recent years thanks to fiscal consolidation, as well as to an increase in foreign financial support. At the same time, private investment also needs to be facilitated over the long term. And implementing broad-based structural reforms is important for boosting private investment. In this respect, the authorities have already seen some good results through structural reform in some areas. For instance, deregulation and the restructuring of public enterprises have produced positive results in the transportation sector. The liberalization of trade and prices has contributed to a significant increase in cotton production, which is the main factor behind the recent high economic growth. I hope that the authorities fully recognize the longer-term benefits of shifting to a private sector led economy and that they continue to accelerate broad-based structural reforms.

Second, in the fiscal area, the present main challenge is to compensate for the possible revenue losses caused by the introduction of the common external tariff under the WAEMU. While the authorities' recent efforts to increase revenue are encouraging, they need to further enhance revenue by broadening the tax base and strengthening tax administration. In this regard, I welcome the fact that the authorities are fully supportive of the adoption of a new investment code under the WAEMU that will reduce exemptions, and that they intend to extend the VAT to the agricultural sector. It is also commendable that they will take various measures to strengthen tax and customs administration in line with the recommendations of the FAD technical assistance mission.

Third, addressing poverty is an important issue facing the authorities. As the background paper notes, Burkina Faso is faced not only with high absolute poverty but also with regional inequality. To address these issues, the authorities need to increase social expenditure, focusing on health and education, and, more importantly, give higher priority to rural areas as well as the northern and central regions where poverty is concentrated. The staff report says that, while there appears to be satisfactory progress in the education sector, the situation of the health sector is mixed. I wonder if the World Bank staff could give us further clarification on recent social developments, including measures to address the delays in implementing some of the social policies.

Finally, I share Mr. Yao's and other speakers' concern that the current crisis in East Asia could have an adverse effect on Burkina Faso's exports as Asian countries suffering from the crisis are major importers of cotton. I would appreciate it if the staff could give us an up to date projection on the effects of the Asian crisis on Burkina Faso's current account.

With these remarks, I wish the authorities every success.

The staff representative from the African Department, in response to a question by Mr. Jourcin, said that the staff had not analyzed more deeply the issue of the revenue losses linked to the introduction of the common external tariff because the Burkinabé authorities were still elaborating the package of offsetting measures to be taken. Those measures would be discussed with the authorities during the staff's next mission in June, which would then enable the staff to give a much more detailed presentation of the offsetting actions. As Mr. Jourcin noted, the revenue losses would be relatively large, and the staff had thus been in very close contact with the authorities on this issue.

On Mr. Morais's question concerning the possible diversification of exports, the staff representative said Burkina Faso's specialization in cotton was based on a strong comparative advantage. In fact, recent developments had shown that cotton production had more than doubled over the previous two years, and recent information received by the staff from Burkina Faso, where the seeding season was about to begin, showed that another sizable increase in the order of 10-20 percent was expected. This was due to a number of factors, such as favorable producer prices and a relatively good and efficient marketing organization structure in Burkina Faso. It was not easy to identify another crop which would have the same growth potential, although there were some. An attempt had been made, for instance, to specialize in certain food and vegetables that could be exported to Europe during the low season. That had met with some success, but also some difficulties. Livestock exports were another important avenue. As the staff had also indicated in its HIPC paper, there was also quite an intense mining activity centered on gold. Gradual diversification was therefore possible, but if cotton exports continued to face a strong upward trend, the statistics over the next few years might even show an increase in the country's share of exports covered by cotton. Nonetheless, the Burkinabé authorities were aware of the need to diversify exports.

On Mr. Singh's and Mr. Fujii's concerns about export diversification and the prospects for cotton, the staff representative remarked that, in the light of the impact of the Asian crisis in particular, the staff had been in contact very recently with the authorities, as they had pointed out that there had been difficulties in the first month of the year. The difficulties had especially been related to the fact that importers from Asia had faced complications opening up letters of credits and having their credit confirmed. There had been some indications that such difficulties had since attenuated. While there had been some delays, conditions were improving and the cotton exporting company expected to be able to export the full crop according to schedule. While the staff did not know exactly at what time the company had finalized the contracts, the forward market was used to guarantee the stability of export prices. The staff had been informed that the 1997/98 production was in fact almost 10 percent higher than indicated in the staff report. There was hence a favorable outturn concerning the quantity of cotton produced. However, the export price for the second part of the crop had yet to be determined.

On Mr. Melese d'Hospital's concern regarding the pace of reform in the civil service, the national assembly had been scheduled to adopt the relevant legislation in April, the staff representative indicated. In fact, the legislation had been passed and it covered the promotion system, which was now based to a larger extent than in the past on merit, on reliance on contractual work, and on decentralization. The World Bank had also been in close contact with Burkinabé authorities on those issues, and pilot programs were being introduced with the objective of increasing reliance on contractual work, especially in the health sector. Decentralization was also an important aspect of the reform package, as it was thought that there needed to be more flexibility in assigning staff, especially in the nonurban areas of the country. During the upcoming mission, the staff would discuss in greater detail with the authorities the implementation of reform measures linked to the promotion system and contractual work.

On Mr. Jadhav's concern about the large current account deficit, it had to be stressed that the increase in the current account deficit, excluding official grants, was clearly related to a large increase in the capital expenditure linked to foreign financing since 1994, the staff representative said. A large part of this expenditure was financed by grants. Looking at the data for the current account, including grants, one could see that in 1997, the deficit was a more manageable 5 percent of GDP. While it was true that even that figure was somewhat higher than in 1994, that was basically explained by the fact that concessional loans used to finance the investment program had also increased. The figures concerning the investment program were quite important. Capital expenditure in Burkina Faso had increased from 7 percent of GDP in 1994 to 12.5 percent in 1997, and the foreign finance component from 6 percent of GDP in 1994 to 10 percent in 1997. In these circumstances, clearly, the current account deficit, especially if one excluded official grants, had increased. Including official grants, the increase was more modest. Still, this reflected the fact that the country had contracted some highly concessional borrowing in order to finance the investment program. Naturally, such trends underlined the need to assess the investment program carefully and to ensure that it was well designed, with a strong emphasis on the private sector. It was also important to ensure that it was effectively pursued, especially as it involved some increase in public debt, although that debt was highly concessional, to a large extent on IDA terms. The staff, the World Bank, and the authorities were paying close attention to the increase in the public investment program, which was quite large in 1996/97—and was also expected to be so in 1998.

Mr. Rodriguez made the following statement:

I would like to commend the staff for providing an informative set of papers. Over the past few years the economic performance of Burkina Faso has been more than satisfactory, showing relatively high real growth rates and low inflation levels, while important structural reforms have been implemented. Last year, in spite of the weather conditions that affected the northern part of the country, economic activity remained strong, particularly because of the impressive growth in the cotton sector. Burkinabé authorities are commended for their prudent policies and their commitment to improve the social conditions of the population.

The general macroeconomic objectives for 1998 are attainable. I share the thrust of the staff appraisal and I would like to add some comments.

On the fiscal front, revenues in 1997 were higher than expected, which is commendable, because of the authorities' efforts to compensate the lower-than-anticipated revenues in the first half of the year. These efforts included measures that will have an effect on revenues only once, as noted by Mr. Singh, such as the prepayment of an installment of the cotton company's corporate income tax and the cuts in the delays in payments at customs. The latter is welcome in particular, since it is an increase in the efficiency, while the temporality of these measures should not be a problem, given the expected recovery in corporate tax revenues in 1998.

As noted by previous speakers, over the next few years the challenge in this area is to offset the loss of revenues caused by the adoption of the common external tariff of the West African Economic and Monetary Union. The only compensating measure that has been considered so far is an increase in coverage of the VAT to agricultural products, but this would be small in terms of revenue generation and hard to enforce. It is mentioned that part of the gap may be covered by the reduction in debt service once the country reaches the HIPC completion point. However, HIPC relief has been intended mainly to support social policies and, in consequence, it would seem more appropriate to use the additional HIPC relief to further enhance health, education and poverty alleviation programs. Thus, from this point of view it could be more convenient to reduce the gap, improving tax collection and even raising other taxes, such as the VAT, which would have a limited impact on prices and other variables, given that tariffs are being reduced.

On the expenditure side, the reduction in the wage bill as a percentage of GDP in 1997 is notable and the subsequent anticipated decline in 1998 would be even more so, because it would be achieved while employment in the health and education sectors is expected to increase. This would be part of a welcome expansion in social programs, entailing an increment in current transfers. In spite of this increase in current expenditures, the current surplus for 1998 would be larger than last year's. The deterioration in the overall deficit in this year's program, which is closely associated to the external current account deficit, stems from larger capital expenditure. This should not be a problem to the extent that this is adequately financed in concessional terms and it is convenient in light of the country's infrastructure deficiencies.

In the structural area there has been significant progress. The second phase of privatization is near completion and authorities are encouraged to continue in other areas, such as hotels and public utilities, in which the private sector can clearly play a larger role. The civil service reform is also worth underscoring because it will allow a more flexible and efficient management of human resources, even if it will have little effect on the wage bill in the short run. A feature of this reform, that is somewhat puzzling, is the hiring of permanent staff for positions of decision making or decision-implementation levels. What is puzzling is that sometimes it is precisely at the decision making level that some flexibility is needed.

The RED provides an informative account about the widespread poverty and the substantial regional differences in Burkina Faso. The efforts made in the last few years to improve health and education are commendable, but the challenges are daunting. It is essential to achieve the health and educational targets that have been set and to go even further, increasing the budget allocation for these programs and securing the necessary resources to support them in a sustainable manner.

With these remarks, this chair supports the proposed decision and I would like to wish the Burkinabé authorities all the success in their future endeavors.

Mr. Houtman made the following statement:

The Burkinabé authorities largely remain committed to the economic program supported by the second annual arrangement under the ESAF and they should be commended for their timely actions in following the program targets.

We are in a broad agreement with the staff appraisal but would like to voice our concerns about two issues that are of importance to the program. The first one is the unfortunate nonobservance of the performance criterion on net bank credit to the government at end-December 1997, and the second one is the worsening of the external current account deficit.

Although staff has clearly explained the reasons for a departure from the performance criterion, we would urge the authorities to keep in mind that the performance under the ESAF is of a crucial importance for reaching a favorable decision on the debt relief under the HIPC Initiative. We would therefore expect the Burkinabé authorities to serve as the role model to the other economies that are to participate in the Initiative by following the program closely, so that the performance criteria can be observed as envisaged. Significant departure from the programd criteria could have dire consequences for their economy, as well as for the Initiative in general.

The increase in the external current account deficit and significant downward changes in the programd level of the net international reserves do not go hand in hand with the objective of reaching a greater degree of external viability and hence we find it difficult to favor such a development in the light of the participation in the Initiative. Although the Burkinabé authorities might not have that many degrees of freedom left in order to manage the appropriate level of deficit, there should be more pronounced effort towards the gradual decreasing of reliance on external assistance. Prima facie evidence of such a move, in our opinion, should come from a containment and/or decrease rather than an increase in the external current account deficit. Although staff has asserted that the balance of payments developments are in line with the previous projections under the debt sustainability analysis, we would urge the authorities to act prudently concerning these developments, in order to justify the confidence that the international community has extended to them with respect to their participation in the Initiative. Given their rather successful track record so far, we are quite confident that this will indeed be the case.

Mr. Borpujari made the following statement:

Burkina Faso's perseverance with the ESAF-supported program is paying off. Last year, growth remained robust, inflation became negligible, and the fiscal surplus increased. However, the external payments outcome was less favorable with reserves down and the current deficit again widening in excess of program expectations. The economy also faces new challenges in the fiscal and external payments fronts. Further policy vigilance is, therefore, critical to sustain the recovery. I have two remarks in that regard.

First, the authorities' continued priority for fiscal consolidation is appropriate. It is important to offset the expected revenue losses from phasing in of the common external tariff of the West African Economic and Monetary Union (WAEMU). The program's emphasis on limiting tax exemptions, improving tax administration, and broadening the tax base for fuller coverage of the informal sector is, therefore, welcome. I am encouraged by the continued stress on prudent management of spending and improvements in the quality of adjustments. It should also be emphasized that acceleration of civil service reform is important on fiscal as well as efficiency grounds. Here, Mr. Yao's statement that the necessary legislation has been approved is reassuring. Like Mr. d'Hospital, I urge the authorities to bring about concrete progress.

Second, the report underscores the economy's mixed medium-term external payments prospects. Notwithstanding sizable gains in volume terms, the cotton export outlook is clouded by decline in world market prices and further downside risks from difficulties of importers affected by the financial crisis in Asia. Imports are meanwhile set to rise in view of revised investment targets. The current payments deficit is therefore expected to deteriorate further. Here, I strongly agree with Mr. Morais on the need for export diversification away from excessive dependance on cotton. Mr. Sacerdoti's encouraging references to the potential in this regard require a closer look. Paragraph 37 of the report also acknowledges that increased external borrowing could impact adversely on the debt service outlook envisaged in the context of the HIPC Initiative. However, the concern is not reflected in the staff appraisal, which has no reference to the external payments situation. Staff comments will be welcome.

With these remarks, I support the proposed decision and wish the authorities further success.

Mr. Merz made the following statement:

We broadly concur with staff's analysis and recommendations. I also join those speakers who have noted the economic progress which the country has achieved so far. We support the completion of the midterm review under the second annual arrangement under the ESAF. At this stage, I would like to address only three areas for emphasis: the external sector, fiscal policy (including the reform of the civil service) and the privatization process.

Turning to the first area, I want to join the concerns expressed by Mr. Singh and many other speakers. Indeed, the high external debt and Burkina Faso's vulnerability against exogenous shocks (such as unfavorable weather conditions and a possible rapid decline in the world market price of cotton) call for a quick and substantial reduction of the persisting high level of the current account deficit which has also exceeded previous program targets. This requires inter alia strenghtend efforts to promote tourism and to diversify the export sector. With regard to the latter, I have noted the "side-advantages" of producing cotton as mentioned by Mr. Sacerdoti. However, it is a point of concern that the already high export share of cotton has further increased from 30 percent in 1995 to 51 percent in 1997. The situation is aggravated by the fact that—as mentioned in Mr.Yao's preliminary statement—a high share of cotton exports is directed to Asian countries. We hope that the strong growth of imports of investment goods will increase the productivity of the economy and will also lead to a lasting improvement of the trade balance.

With regard to fiscal policy, rising and higher than previously programed overall deficits since 1996 underscore the need for stronger consolidation efforts. On the revenue side, we strongly support staff's advice to broaden the tax base inter alia to offset revenue losses resulting from the cut in the maximum external tariff and in the statistical tax in 1999 and 2000. On the expenditure side, I join the remarks made by Mr. Melese-d'Hospital calling for a speeding up of the preparatory work for the civil service reform to continue the containment of the public sector wage bill. In this context, we welcome the information provided in Mr. Yao's preliminary statement that all the required legislations have been approved by parliament. However, we share staff's regret that the new recruitment policy of the authorities which limits permanent civil service positions and relies to a larger extent on contractual staff, is only focussed on new recruits and does not encompass already employed staff members, too. The authorities should therefore consider additional measures which affect the composition of the civil service more substantially.

Let me conclude with some remarks on the privatization process. Although staff pointed out that the privatization program has been executed as envisaged, we would recommend a quicker privatization pace. The privatization law of 1994 involved 19 companies of which only four had been privatized four years later. Moreover, the future action program for the remaining enterprises which also contains the very important public utilities, envisages so far only the mapping out of a strategy by end-May 1998. More rapid progress is clearly advisable here.

We wish the authorities much success in their adjustment efforts.

Mr. Giustiniani made the following statement:

I welcome the encouraging results achieved by the Burkinabé authorities. Burkina Faso's economy is certainly improving, as is its outlook, as a consequence of the appropriate implementation of the ESAF-supported program. However, I share the concern expressed by previous speakers, especially by Mr. Morais and Mr. Jadhav, regarding the vulnerability of the external sector as well as the worsening of the current account.

I would like to make a few remarks for emphasis. I believe that maintaining fiscal discipline and reforming the banking sector continue to rank among the top priorities of the economic and reform agenda of the Burkinabé authorities. Fiscal discipline is called for in respect of the current exchange rate arrangement. In a monetary union, there is not much room for fiscal imbalances. In this regard, I share Mr. Singh's comments on the need for substituting temporary measures taken in the second half of 1997 with permanent ones.

I understand the authorities' concern about the potential revenue losses stemming from the implementation of the common external tariff. However, the problem should be kept in perspective, as losses will be only temporary. As experience has shown, fiscal reforms are hardly revenue neutral in the short term. It is the responsibility of the authorities to find the appropriate measures to compensate the revenue shortfall. In the case of Burkina Faso, where the ratio of tax revenue over GDP has marginally improved since 1991, when the first ESAF-supported program was approved, improvements seem to be possible through the reduction of exemption, the enlargement of the tax base, the taxation of the informal sector, and the strengthening of tax administration.

Bank restructuring is the other crucial element of the reform process that I would like to underscore. The financial sector is responsible for deploying scarce capital resources in the most efficient way. A more efficient banking sector is therefore crucial to foster economic growth. In this regard, the increase in nonperforming loans recorded in the first nine months of 1997, as reported in Table 24, page 82 of the recent economic developments, is a source of concern, as it happened in the face of improving performance of the economy.

Furthermore, I am a bit puzzled by what was reported in Table 27 of the same document. All the maximum lending rates applied by the commercial banks on the whole spectrum of lending activity are equal to the usury rate. I would expect the maximum lending rates to be, on average, below the usury rate. Therefore, I wonder whether the setting of this rate is not a different approach through which ceilings on domestic interest rates are reintroduced. If the Burkinabé banks cannot accomplish their lending activity on lower nominal and real interest rates, these are signals that there is an urgent need for improving their efficiency and increasing competition in the market.

As far as monetary policy is concerned, I would like to ask the staff a technical question. Maybe it can be answered later, on a bilateral basis. Monetary programming in Burkina Faso, as well as in other CFA countries, is made more difficult because they are part of a monetary union. However, if we compare the results in 1996 with the results in 1997, we can observe that in 1996 output grew faster than expected and the money supply was kept in line with the program, but inflation turned out to be higher than programed. In 1997, the output growth was lower than envisaged, while money increased more rapidly than programed, but inflation slowed down. How does the staff explain this instability in the relationship between money, output, and prices?

Finally, as Mr. Singh and Mr. Houtman, I would like to stress the importance for the Burkinabé authorities to fully adhere to the current ESAF-supported program, as this is essential in order to grant substantial debt relief under the HIPC initiative.

With these comments, this chair can support the proposed decision. We wish the authorities well in their endeavors.

Mr. Zakharchenkov made the following statement:

There is little to add to the staff report which is candid both in describing achievements and identifying potential problems. Economic performance in 1997 was broadly satisfactory with most macroeconomic indicators being within or close to program ceilings. Almost all structural performance criteria were met as well as structural benchmarks. The authorities have demonstrated their strong commitment to the reforms, and in this connection publishing of the Letter of Intent is particularly welcome. We agree with the staff that the overrun on net bank credit to the government was due to one-off factors and we support the request for a waiver of nonobservance of the performance criteria as well as support the proposed decision. I would like to limit my statement to just a few comments for emphasis.

Real sector developments were broadly encouraging with a GDP growth of 5.5 percent in 1997. However, it was lower than envisaged by the program (5.6 percent) and significantly lower than was projected at the time of the last discussion (above 6 percent). In 1997 GDP growth was strongly supported by a sharp increase in cotton output, the country's largest export position, and an associated increase in manufacturing. I share the concern expressed by Mr. Yao in his statement and some other speakers that the Asian crisis as well as the downward trend in world cotton prices could have an adverse effect on the country's growth prospects and current account deficit.

There is little to add on the monetary policy except that it served the authorities well. Since the devaluation of the CFA franc in 1994, market confidence has been renewed, money velocity has been phased out along with the rediscount rate. The inflation target of 3 percent was met with a substantial margin reaching an estimated average of 2.3 percent in 1997.

On the fiscal front the main challenge for the Burkinabé authorities in the short term is to sustain budgetary revenues in the face of the phasing in of the common external tariff (CET) as well as other unifications in taxation under the West African Economic and Monetary Union (WAEMU). In this connection we welcome the measures declared by the authorities to minimize revenue losses by broadening the tax base and curtailing exemptions which are described in the Letter of Intent in paragraphs 22–25. Continuing efforts for further fiscal consolidation are also commendable.

The Burkinabé authorities are to be commended for their bold initiatives and significant progress in the area of structural reforms, in particular in their support for the private sector, including privatization initiatives, and civil service reform. However, social indicators continue to be extremely low in Burkina Faso. In this connection, I have several concerns about mixed developments in the area of social policies. While in the education sector it is estimated that programed targets were met, in the health area we do not see a sizeable progress, especially with respect to vaccination rates and use of health centers. We would urge the authorities to fully utilize the assistance granted under the HIPC Initiative to improve social indicators.

Finally, we would like also to urge the Burkinabé authorities to speed up the process of external debt data reconciliation and to start negotiations on rescheduling agreements with remaining creditors.

Let me conclude by wishing the Burkinabé authorities success.

Mr. Merino made the following statement:

This chair commends Burkina Faso's authorities for their progress in macroeconomic stabilization and structural reform, which has sustained rapid growth and moderate inflation. Considerable progress has been made with price and trade liberalization, and remarkable progress has been achieved in improving the country's social development. However, poverty remains severe and widespread.

As I broadly agree with the staff appraisal and previous speakers, I would like to submit my complete statement for the record and make a few comments for emphasis.

First, on the fiscal front, we recognize that the main challenge ahead is to widen the tax base and strengthen tax administration, efforts that warrant adequate Fund technical assistance. The authorities should be encouraged to continue carrying out a prudent expenditure policy, widen the budgetary allocations for the social sectors and public investment, consolidate the current fiscal position, and reduce the need for exceptional financing. We note that the initial target for the primary surplus (excluding foreign-financed investment) was 1.9 percent of GDP for 1997 and for 1998 would be 1.5 percent. The staff explained that the 1997 final primary surplus of 1.1 percent was mainly accounted for by infrastructure spending on the soccer African Cup of Nations, a one time event. For 1998, staff projects a sizable revenue loss that will result from the gradual phasing in of the common external tariff of the WAEMU, during the 1998–2000 period. We agree that the reduction in import duties will have an adverse effect on government revenue and, despite a strong effort at compensation, will result in transitional net revenue loss. In this context, a firm implementation of the civil service reform deserves to be encouraged considering that success in this area is very important for lasting improvements in the fiscal position.

Second, on monetary policy, the WAEMU has served the region well. However, given the small size of the monetary union and the eventual destabilizing effects of one country's fiscal policy on other members, the introduction in the regional agreement of limits on net bank credit to the government, and making explicit the BCEAO's objective of keeping gross foreign assets in line with base money in addition to the current ceiling on central bank credit to government, should be considered in order to avoid lax monetary and budgetary policies that could undermine the credibility of parity. The current limits on Fund-supported programs are well focused and could be mutually reinforced at the regional level.

Third, the combination of sustained economic growth and improved public finances led to a substantial rise in domestic savings from 7.5 percent of GDP in 1996 to an estimated 9.2 percent in 1997. Thus, the authorities should consider additional ways of promoting the strengthening of local saving institutions, so as to mobilize savings better and provide adequate support to small scale projects in urban and rural areas. In this regard, due consideration should be given to the legal framework to capitalize, when needed, savings and loan cooperatives and credit unions. Moreover, as we said in our last meeting on WAEMU- Recent Developments and Regional Policy Issues "Greater disclosure and dissemination of indicators of financial strength of each of the 50 banks operating in the WAEMU with adequate Fund technical assistance, to facilitate implementation of an efficient payment system that reduces systemic credit risk, could contribute significantly to the development of an active interbank market. Additionally, the introduction of a single, zone-wide licensing agreement, which covers capital requirements could serve to enhance the functioning of the banks operating in the WAEMU."

Finally, we support the proposed decision and wish the Burkinabé authorities every success in implementing structural reforms, in particular completion of key reforms in the areas of civil service, public enterprise restructuring, privatization, and liberalization of the agricultural sector, that could pave the way for the consideration of the completion point for Burkina Faso under the HIPC initiative.

Mr. Harinowo made the following statement:

Burkina Faso's favorable economic and financial performance in 1997 and early 1998 is highly commendable. The sustainable growth, declining inflation, and main budgetary targets achieved clearly demonstrate the authorities' commitment to restructure and reform the present economic situation. As I concur with most of the staff's analysis, I would just like to raise a few points for emphasis.

First, it is encouraging to note that the authorities are determined to speed up reforms in the area of fiscal management, privatization, and the civil service. In this context, I would like to encourage the authorities to stay firm in their prudent fiscal stance, which should be supported by the ongoing reform programs. The widening of the tax base and strengthening of tax administration, on the one hand, are necessary to increase revenue, while containing public expenditure, including wage bills, on the other, is also important.

With regard to privatization, the results so far are very impressive. The authorities' intention to complete the second phase and to move on to the next stage in the privatization and restructuring process of its public utilities enterprises is welcome.

Second, on the monetary policy, I am encouraged by the efforts in reducing the banks' lending to the government in order to increase their lending capacity to the private sector. In light of the determined efforts of the government to promote the private sector through the privatization process and to enhance other private sector initiatives, it is very appropriate that the financing sources of this sector should also be widened. Therefore, I am also encouraged by the authorities' efforts in strengthening the banking system. However, I would like to encourage the authorities to strengthen further the local savings institutions for the benefit of small-scale projects in urban and rural areas. Learning from the experience of other countries facing similar conditions, they could avoid the mistakes that other countries have already made.

With these remarks, this chair has no difficulty in supporting the decisions as proposed by the staff.

Finally, I wish the Burkina Faso authorities every success in dealing with the challenges ahead.

Ms. Akhmetova made the following statement:

At this point of the discussion, I would like to make only a few comments. I would like specifically to join members of the Board who expressed deep concern on weak social indicators. We all recognize that the high economic growth in Burkina Faso came primarily from continuing expansion of the cotton sector, which is highly vulnerable to weather conditions and exogenous shifts in the terms of trade, as mentioned in Mr. Yao's helpful preliminary statement. We hope the authorities are aware of the fragility of the progress made in recent years and plan to step up the measures undertaken in liberalizing agriculture and strengthening agricultural services.

With these comments, I support the proposed decision and wish the authorities every success.

The staff representative from the African Department commented that prospects for the external balance of payments had been discussed in paragraph 37 of the staff report; in particular, the staff had dealt with the evolution of the balance of payments in 1997, prospects for 1998, and how they would compare with the medium-term balance of payments that it had presented in the paper for the HIPC Initiative in August 1997. The staff had done so because of its concern to ensure that the pace and the development in the balance of payments were fully consistent. As the staff had indicated, the trade balance and the current account were expected to be broadly in line with what had been envisaged. The staff had indicated that there could be some additional imports financed by external assistance which might have a modest impact on the debt service outlook for the following two or three years. The issue was being reviewed with the authorities. Although the contracting of highly concessional borrowing had been larger in 1997 than projected in the HIPC paper, the staff's analysis indicated that the impact of the increase would be quite modest. That issue was also being monitored by the staff. As far as 1998/99 was concerned, Table 4 in the staff report indicated that a considerable improvement in the current account was expected for 1998–2000. The considerable increase in the investment program, following a review by the World Bank, could be expected to be reduced over the following two or three years. That reduction would imply a more moderate increase in imports, while exports would remain relatively constant and in line with expectations concerning the cotton sector, livestock, and the gold sector. In Table 2, in selected indicators, the staff had indicated that it expected the growth of exports to exceed the growth of imports by a considerable margin, and, accordingly, the current account to improve. Nonetheless, the staff would continue monitoring the issue with close attention, together with a review of the investment program, in order to make sure that the trends were in line with those envisaged in the HIPC paper.

The staff representative indicated that Mr. Giustiniani's technical questions concerning monetary policy would be addressed bilaterally. Regarding Mr. Giustiniani's comments on nonperforming loans, the relevant table and discussion in the appendix of the staff report showed that, following considerable restructuring of the banking system in the early 1990s, nonperforming loans represented a small amount of the total, amounting to approximately 1.5 percent of total credit in the economy, which was a relatively acceptable ratio. That outcome was due to the fact that, during the restructuring process in the early 1990s, the government took over a large share of nonperforming loans that were currently managed by a recovery unit.

The pace of privatization had clearly accelerated in 1997 and a second phase of the privatization program was about to be completed, the staff representative said. A study of the residual portfolio of enterprises controlled by the government involving public utilities was also under way. The government was currently addressing the issue of the liberalization of the telecommunications sector, which would be discussed with the participation of the World Bank in particular. That issue would require legislation. A regulatory commission would have to be established before the government could open up the sector and divest its share. The liberalization of the telecommunications sector represented an important step, and the authorities appeared fully committed to it.

Mr. Giustiniani pointed out that the staff representative had said that nonperforming loans represented about 1 percent of total credit in the economy. However, Table 24 indicated that nonperforming loans amounted to 12.4 billion CFA francs and claims on the economy amounted to 134.6 billion CFA francs at end-September 1997. Nonperforming loans would therefore account for about 9.2 percent of total credit in the economy.

The staff representative from the African Department agreed with Mr. Giustiniani. The figure of 1 percent of total credit was for 1996. However, the figures for 1997 were highly provisional, and the central bank had indicated that there were some problems of reclassification. It was the beginning of the crop campaign, and authorities were confident that the figures mentioned by Mr. Giustiniani would be revised.

Mr. Barro Chambrier made the following concluding statement:

Following the comprehensive answers of the staff representative, Mr. Sacerdoti, I would like to make only a few brief remarks. I would note, first of all, as Directors have done, that solid progress is being made in the reform of the economy of Burkina Faso. Almost all the economic and financial indicators show significant improvement from 1994. However, as stressed by Directors, the social indicators remain weak. With the prospects of lower debt servicing, it is my authorities' intention to take advantage of a more qualitative public investment policy, and thus provide more resources to improve human capital infrastructure and the standard of living.

Regarding the impact of the introduction of the common external tariff in the framework of the WAEMU, as noted by the staff and in our preliminary statement, there are some concerns that a shortfall may result in the immediate future, but I would like to reassure Directors that the authorities recognize the advantage of such a measure for the medium to long term and that they will implement it steadfastly. They will also implement a number of additional revenue measures to ensure that this shortfall will be kept to a minimum.

I have noted the recommendations of a few Directors regarding the need to strengthen efforts to widen the taxation of the informal sector. I can assure Directors that this is having the full attention of my authorities. The recommendations of the Fund technical assistance mission in this regard are being studied with a view to implementation.

On the civil service reform, as we said, all the necessary legislation has been adopted by the national assembly, and the authorities will implement the reform with determination. I wish to add only that this is one of the most delicate issues in all countries in the region. This is not specific to Burkina Faso, and there is obviously a question of sequencing of the reform. The reform would be facilitated with a stronger private sector that would create new jobs. I think this is an important point.

On privatization, Mr. Sacerdoti has already provided all the explanations regarding the next step—to elaborate a strategy by the end of June, especially for the public utilities.

On the increase in the external current account deficit, here Mr. Sacerdoti has given a detailed explanation. Let me add that I do not think that this represents a weakening of fundamentals. It should be noted that the volume of exports has seen a major increase over the past two years. The increase in the volume of imports reflects in fact an increase in the import of capital goods, which should help to improve the external position of Burkina Faso in the medium and longer term. As mentioned by Mr. Merz, it is to be hoped that the productivity of the economy will also be boosted. This should improve as efforts to diversify the economy continue.

With these words, let me thank Directors for their comments and recommendations, which I will transmit to my Burkinabé authorities. I would also like to thank Mr. Sacerdoti for his comprehensive answers and for the understanding he and his team have shown to the specific problems of Burkina Faso.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They noted that Burkina Faso's economy continued to benefit from the implementation of sound policies and structural reforms. In 1997, economic growth was sustained, inflation fell, and the main budgetary targets were met, owing to a strong revenue performance. Directors were encouraged by the significant progress achieved by the authorities in implementing their privatization program and adopting a reform plan for the civil service. Those measures were crucial to attract foreign investment and diversify the productive base, while improving government efficiency.

Nevertheless, Directors noted that the authorities continued to face difficult challenges, in particular to improve the very weak social indicators and to enhance the role of the private sector in economic activity. They urged the authorities to persist in their adjustment efforts, giving continued priority to fiscal consolidation in order to provide sustainable resources for poverty alleviation and development spending. Pointing to the recent deterioration in the external current account position, several Directors also stressed the role of structural reforms to promote export diversification and reduce the external vulnerability of the economy.

Directors noted that the 1998 government budget provided for a continued effort to increase the revenue/GDP ratio and to contain current expenditure, particularly the wage bill, while including larger allocations for the social sectors. They welcomed the effort to increase resources in support of education and health, and noted that some progress had been made in improving the social indicators. Some Directors expressed particular concern about the weak performance of the health sector and recommended that that sector be given priority. Directors stressed the importance of enlarging further the revenue base and strengthening tax administration so as to offset the losses arising from the introduction over the next two years of the common external tariff of the West African Economic and Monetary Union (WAEMU). In that regard, Directors welcomed the authorities' support for a new investment code in the WAEMU, which would curtail tax exemptions.

While welcoming the significant progress made in recent months under the privatization program, Directors were of the view that it was now important to address the restructuring and privatization of public utility companies. They noted the steps under way to strengthen the judicial system and to facilitate the creation of new enterprises. Those steps were considered essential to encourage private sector initiative.

Directors considered that the reform of the civil service, with the introduction of a more rigorous merit-based promotion system and more reliance on contractual workers, was an important step toward improved performance and flexibility in resource allocation. It was now crucial that those measures be implemented with determination.

Directors welcomed the strengthening of the banking system through privatizations and recapitalizations, and noted that surveillance should continue on the networks of mutual saving and loan institutions, which played an important role in financing small-scale productive activities. They encouraged the adoption of further measures in that area.

Directors noted that improving the quality of economic statistics should remain an important priority.

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

The Executive Board took the following decision:

1. Burkina Faso has consulted with the Fund in accordance with paragraph 2(d) of the second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) for Burkina Faso (EBS/97/154, Sup. 1, 9/9/97).

2. The letter of the Minister of Economy and Finance of Burkina Faso dated March 16, 1998 shall be attached to the second annual ESAF arrangement for Burkina Faso, and the letter dated August 14, 1997, together with its attached memorandum, shall be read as supplemented and modified by the letter of March 16, 1998.

3. Accordingly, the indicators referred to in paragraph 3(a) of the second annual ESAF arrangement for Burkina Faso should be as specified in Table 1 attached to the letter dated March 16, 1998.

4. The Fund determines that the midterm review contemplated in paragraph 2(d) of the second annual ESAF arrangement for Burkina Faso has been completed, and that Burkina Faso may request disbursement of the second loan specified under paragraph 1(b) of the arrangement, notwithstanding the nonobservance of paragraph 2(a)(i) of the arrangement.

Decision No. 11724-(98/54), adopted
May 18, 1998

3. REPORT BY FIRST DEPUTY MANAGING DIRECTOR

The First Deputy Managing Director reported on his recent travel to Basle, where he attended the Group of Ten Governors meeting and chaired the Coordination Meeting on Technical Assistance to the Central Banks from the Baltics, Russia, and other countries of the former Soviet Union; and to Scotland to participate in the Bilderberg meetings.

4. BIRMINGHAM SUMMIT—REPORT BY EXECUTIVE DIRECTOR

Mr. O'Donnell reported briefly on his recent travel to the United Kingdom to attend the Birmingham Summit of the Group of Eight and the Group of Seven, as well as on his recent travel to Indonesia, the Republic of Korea, and Malaysia.

Mr. O'Donnell made the following statement:

I thought it would be useful to the Board if I took this opportunity to give a brief presentation of the G-7/G-8 summits in Birmingham, as there are a number of issues which came up at the summit of relevance both to the Fund and the World Bank. I will concentrate on those issues.

I have circulated to all members of the Board the G-7 Chairman's statement, the G-8 final communiqué, a G-7 paper on strengthening the architecture of the global financial system, and a G-8 statement on debt relief that refers to the Jubilee 2000 program.

The context of this summit was different from previous summits in the sense that the finance and foreign ministers met a week before the heads of state and government gathered in Birmingham. The background for their discussions was the crisis in Asia. The emphasis was on growth, employment, and international crime. The summit handled two other topical issues, namely the developments in Indonesia and the response to nuclear testing in India.

As regards the IMF, strong support was expressed for the programs that are being implemented in Asia. Full implementation of those programs was called for, with particular attention paid to those groups most adversely affected by the crisis, through social sector programs. A call was also made for increased transparency within countries and within international financial institutions, which corresponds to the Managing Director's ideas concerning the Fund's work program, in particular with reference to the special data development standards, the promotion of a code for financial and monetary transparency, PINs, letters of intent, public statements of concern, and the idea of tiered responses. On Bank-Fund collaboration, there were calls for greater cooperation in the surveillance of financial, supervisory, and regulatory systems. There was also some discussion about how the Interim Committee might be reformed. Another issue was the involvement of the private sector during crises. A number of ideas have been put forward in the communiqués, particularly with regard to lending into arrears. On the question of debt, all eligible countries were encouraged to take as soon as possible the policy measures which would enable them to embark on the HIPC process. All eligible countries could be taking part in that process by 2000. Regarding post-conflict situations, it was generally recognized that new ways needed to be found to release more resources earlier for essential rehabilitation projects, particularly for those countries with arrears to the international financial institutions.

On Indonesia, the G-8 statement refers to the need for successful economic reform, which will depend on political and social stability. The statement indicates that the G-8 will continue to work in collaboration with the international financial institutions to support reform and alleviate hardship.

On my other travel, I spent six days accompanying Gordon Brown to Asia, as he wanted to brief himself prior to the G-7/G-8 meeting of finance and foreign ministers. We visited Seoul, Kuala Lumpur, and Jakarta in a quick but extremely interesting tour, during which we met with the Presidents of Korea and Indonesia, and with the Deputy Prime Minister of Malaysia, among others.

In Korea, we met with the trade unions as well and the leaders of the chaebols and came away with the impression that progress on reform of the chaebols is a key issue which presents some difficulties. The Fund will need to be attentive to the social consequences of the programs in East Asia and how they are managed, in particular when the benefits for those who are being laid off by necessity run out. It is important that we think about ways in which the social consequences of that crisis can be managed.

In Malaysia, we had an interesting and lively discussion about the relative merits of high interest rates versus credit controls as ways of managing monetary policy. The need for reform was clearly felt. In both Korea and Malaysia, we were asked to convey to our respective presidencies of the G-7 and of the EU a strong plea regarding the need for long-term foreign investment in both economies. We agreed that this was a very important element of the reform process, in particular attracting long-term investment into the financial sectors. This was especially relevant to Indonesia. We also made some suggestions regarding measures that could encourage investment in Korea and in Malaysia.

When we arrived in Indonesia, there had been some disturbances, particularly in Medan, and also in Jakarta. We were nevertheless encouraged by the feeling that the reform process was starting, in some areas at least. I think the situation has changed considerably since our visit. We felt that we needed to be clear on the collaboration between the Fund and the Bank. While the implementation of the Fund's programs could be quite rapid, the social impacts of those programs could also be quite swift, whereas the implementation of the social programs could be quite slow. Therefore, careful consideration had to be given to the timing of the various programs and their coordination.

We were also very clear about the areas in which we could help, particularly in the area of foreign credits, where we announced an increase in bilateral aid. Another priority for Indonesia will be to improve the functioning and the transparency of the corporate sector.

We need to encourage the Indonesian authorities to implement the Fund-supported program. I felt there was quite strong support across a wide range of politicians for the program, but obviously the political situation was unstable and remains so. For the moment, we need to be very careful in terms of how reform are implemented.

5. ANNUAL REPORT, 1998—CHANGE IN PROCEDURES FOR COVERING ARTICLE IV CONSULTATIONS

The Executive Directors considered a staff paper on a proposal relating to a change in procedures for covering Article IV consultations in the *1998 Annual Report* (EBD/98/40, 5/4/98).

Directors agreed to discontinue the coverage of Article IV consultations in the *1998 Annual Report* and to issue three times each year volumes of the press information notices (PINs) released over the preceding four-month period, beginning with a volume covering the period January 1 to April 30, 1998, to be issued in May 1998.

Ms. Budington made the following statement:

The staff's recommendation for the periodic publication of a separate volume of PINs is a very sensible remedy to the problem of timeliness associated with the Article IV section of the Annual Report.

The publication will also serve as a user-friendly means to provide the information to a larger audience.

And with last year's Article IV section covering over a quarter of the Annual Report 284 pages, this change will allow for both a more thorough coverage of other issues and a more streamlined package.

In terms of timing, we agree with staff that the first publication should occur as soon as possible given the lack of any technical constraint to suggest the need to put this off until September.

A few specific technical points:

We assume that, as originally planned, the annual report will include a summary table of Article IV consultations completed during the fiscal year, with some mechanism indicating to readers for which countries PINs are available. It would also be useful to provide information in this table about how the PINs can be accessed.

The new volume should likewise include a) an introductory page that explains the PIN process and its connection with the Article IV consultations and b) a similar summary table of Article IV consultations and PINs over the covered period.

Mrs. Gonzalez made the following statement:

This chair was among those who expressed concern over the possible outdatedness of the reports on Article IV consultations by the time the Annual Report is released. We find the staff's proposal to publish IMF country assessments three times a year a very practical one, which will help to streamline the Annual Report and to ensure timeliness. The PINs released between May 1 and December 31, 1997 could be listed in the initial publication, together with the Fund's website address where they could be accessed.

Mr. Toribio made the following statement:

I am in favor of the staff's proposal to discontinue the publication of Article IV consultations in the Annual Report and to replace it with a compendium of the PINs released in the preceding four months. The reasons for my supporting the proposal are precisely those presented by the staff, namely the doubtful utility of the current Article IV summaries in the Annual Report, given the delay with which they are published.

I have only two points of secondary importance to make about the proposal.

First, we should be conscious of the relatively small numbers of PINs that are finally cleared for publication by the authorities of the countries involved. If nothing is done to encourage the acceptance of PINs by the authorities themselves, we may end up having a perhaps better and more timely publication, but covering only a smaller number of countries. Only 60 PINs have been published so far, whereas the last edition of the Annual Report included 81 countries. Why authorities show a higher propensity to authorize the inclusion of the country in the Annual Report than to allow a PIN's publication may not be obvious, but it seems to be a fact. We should bear this in mind.

My second observation has to do with semantics. The proposed title of the new publication ("IMF Country Assessments") seems to suggest a certain appraisal or rating of the countries referred to. Perhaps a milder title like "IMF Country Reviews" would be more appropriate in order to avoid raising readers' expectations too much. I do not intend, however, to insist strongly on this point.

As for the alternative of issuing the new publication immediately (with the PINs released in the first four months of the year) or waiting until next September (with a last issue of the old summaries in the coming Annual Report), I frankly do not have a very firm opinion. Both options seem equally acceptable to me. If the staff prefers the first one, so let it be, unless most of my colleagues on the Board think otherwise. I will simply go with the majority.

Mr. Han made the following statement:

I can support the second option recommended by the staff, but I have only one reservation. Regarding the name of this publication, I share the views expressed by Mr. Toribio, and I would suggest "Collection of PINs" instead of "IMF Country Assessments."

Mr. Shaalan made the following statement:

I agree with Mr. Toribio's statement and would like to emphasize three points. First, if we want to have more PINs, we should be reviewing the process of issuing those PINs. The sooner this is done, the more countries might be prepared to authorize their publication. Second, PINs should be called country reviews instead of country assessments. Third, I propose that we review the whole process one year from now.

Mr. O'Loghlin made the following statement:

My authorities strongly support the concept of replacing the existing coverage, within the Fund's Annual Report, of Article IV consultations with a separate volume to contain the texts of all Press Information Notices (PINs) released over the relevant period.

As a vehicle for publication of views on countries, the Annual Report unavoidably leads to issuance of views which can all too easily have lost their relevance—if not worse. In this context, the second option for changeover that staff outline—to publish a first "IMF Country Assessment" volume immediately and not to include any Article IV coverage in our next Annual Report—seems the preferable approach.

Producing periodic volumes of Press Information Notices would, we believe, have the additional advantage of encouraging even wider release of PINs than hitherto. Indeed, that objective should inform the content of "IMF Country Assessment" volumes. To this end, we also support Ms. Budington's suggestion that there should be incorporated, in both the Annual Report and in each volume of "IMF Country Assessments," in addition to the full text of the PINs of the relevant period, indices which would identify: the date of the Board discussion of the most recent Article IV consultation with each of our members; the number of the relevant PIN, if issued, together with a pointer to the "IMF Country Assessment" volume in which it is to be found; and in those cases where members are not on the normal 12-month cycle, an indication that a less frequent cycle applies (to guard against the risk that unwarranted inferences might be drawn).

With respect to Mr. Toribio's suggestion that the new volume might be entitled "IMF Country Reviews," I believe that the staff proposal of "IMF Country Assessments" would be more apt. The word "review" suggests to me a recounting of historical developments. The word "assessment" conveys concepts of evaluation and judgement—and thus better sums up the nature of the PIN.

We thank the staff for its initiative in this matter.

The Acting Chairman indicated that when the PINs were first introduced, it had been agreed that the Board would not exert any pressure on countries to publish them. Since then, he had observed with satisfaction that several countries that previously would not have agreed to publish had indicated a willingness to do so.

Mr. Shields made the following statement:

I appreciate the staff's suggestion to publish the PINs in a separate volume. I think we should do so and start as soon as possible. I also agree with Ms. Budington's suggestion to provide a brief description of Article IV Consultations and PINs both in the Annual Report and in this thrice-yearly publication.

As far as the name of the publication is concerned, I agree with Mr. O'Loghlin. The term "assessment" would be appropriate, as it would make clear to the public that the Board is appraising, and not rating, developments in a country.

Mr. Eyzaguirre made the following statement:

This chair has been supportive of the PIN as a useful instrument for conveying the Fund's views on member countries. Moreover, since its inception, most of the countries in our constituency have published PINs after the Article IV consultations. Consequently, we support the staff's proposal to issue the first IMF country assessments as soon as possible and to discontinue the coverage of Article IV consultations in the 1998 Annual Report.

The importance of PINs should be enhanced, as they enable the Fund to disclose its views while preserving the confidentiality of its relations with members. The idea of listing all the Article IV consultations in the Annual Report is justified, as it will make evident which countries have not published PINs.

Mr. Giustiniani made the following statement:

This chair does not have strong feelings either against or in favor of the decision. However, we were a bit puzzled by the timing of this decision, as the Board was expected to review the PIN experience shortly. Perhaps it would have been more appropriate to take today's decision after that review.

The Acting Chairman explained that the question of the coverage of Article IV consultations was raised when the outline of the Annual Report was being discussed and that the timing of the present item was due to the fact that the Annual Report would be presented shortly to the Board in draft form.

Mr. Szczuka made the following statement:

> This chair can support the majority on this issue. I would like to raise two points only. The first is the question of the added value of the publication of PINs. The real value of PINs is based on the day of their publication, as this is when the press is interested. PINs are also of interest to researchers who can access them through the Fund's external website. I am therefore not convinced that the publications of PINs will provide much added value. Second, while the Article IV consultation process is a key activity of the Board and of the Fund, the Annual Report contains only one or two pages referring to this process. I would suggest to include in the Annual Report a general description of the Article IV consultation process and the lessons drawn from it.

Mr. Estrella made the following statement:

> We support the discontinuation of Article IV summaries in the Annual Report since, as the staff have emphasized, the Article IV summaries for some countries are outdated when the Annual Report is released every year. Also, it will make the Annual Report a more friendly and readable document to the public. However, we don't see the need for the creation of a new document "IMF Country Assessments" containing a set of past Press Information Notices (PINs). No doubt, this new proposed document is a duplication of information to the public; for example, anyone can go into the IMF's Internet page and print any PIN. Moreover, what would happen if during a certain period—let's say one quarter—no countries agreed to publish a PIN? What would be published in this new document?

Mr. Heinbuecher made the following statement:

> I can be very brief: we can support staff's proposal that the coverage of Article IV consultations in the Fund's Annual Report be discontinued and replaced by a new publication to be issued regularly three times a year that contains the texts of all PINs released over the preceding four months. We also can agree to start this new procedure right now in the context of the Annual Report 1998. The arguments given by staff clearly support such a move, which might also help to reduce costs in this area.
>
> However, given the character of the Annual Report we would find it appropriate to keep information about Article IV consultations concluded in the respective financial year in the Annual Report, such as table 3 of last year's report. Such a list might also include a reference to PINs that have been published during that period.

We see also merit in having such a reference-list covering the respective time period in the proposed new IMF Country Assessment publication, as suggested by the US chair.

Mr. Sivaraman made the following statement:

I support the staff's position, and I do not have particularly strong views regarding the title of this publication. I would like to suggest that PINs should be supplemented by a table showing the country's most important macroeconomic parameters. It would make the reading of the PIN more interesting and more useful.

Mr. Fernandez made the following statement:

We support the staff's proposal in Option 2. We are also in favor of listing Article IV consultations and released PINs in the Annual Report. In order to increase visibility, perhaps the timing of this new publication could coincide with the release of the *World Economic Outlook (WEO)*, as the *WEO* is an important element in the Fund's communication strategy. In this respect, it would be useful to have an idea of the costs involved in the new publication.

Mr. Daïri made the following statement:

This chair supports the PIN process, but also maintains the view endorsed by the Executive Board that members should not be pressured to publish PINs. I am concerned that through today's proposal we might be changing something that has been already agreed upon earlier.

We de not really see a need for publication of the PINs in a new format. As has been indicated by Mr. Estrella, I do not see why we would publish PINs that are already available on the Internet. This is really an unnecessary use of resources, and I join Mr. Fernandez in asking about the costs involved.

I also think that, under the new proposal, we may be losing in the process some countries that, for some reason, may agree to publish their section in the Annual Report, but would not agree to publish a PIN. It would be regrettable if we are faced with such a situation. I also believe that the Annual Report is a reference for the general public, and it may be better to protect its usefulness and relevance for the public at large instead of referring the public to another publication. If there is a problem with the timeliness of the country coverage in the Annual Report, this issue is very easily corrected by the user searching the Internet for the PIN.

Finally, if it is the intention of the Board to go ahead with the proposal, which, in my view is unnecessary, I can join the consensus. However, I support Mr. Shaalan's view that we should review the process. I also support Mr. Toribio's call to change the title of the publication.

Mr. Yakusha made the following statement:

Our preference would also be to discontinue the coverage of Article IV consultations in the Annual Report and to issue the first IMF country assessments as soon as possible. With regard to the presentation of this new product, we are also in favor of listing Article IV consultations and released PINs on the cover page. We are also in favor of only reflecting this information in the Annual Report.

Mr. Kpetigo made the following statement:

We agree that the unfolding of events in a number of countries becomes so rapid that the Annual Report with the existing procedures could only release to the public outdated information as regards Article IV consultations coverage.

To address this situation and in a view to making timely information, we agree with the staff that Article IV consultations coverage be discontinued and replaced by a new publication covering Press Information Notices. In that sense, our preference will go to the second option proposed buy the staff.

The title of this publication could be IMF Country Assessments or IMF country appraisal.

Mr. Prader made the following statement:

We agree with the proposal to streamline the Annual Report and to discontinue the coverage of Article IV consultations. We suggest the title "assessments" for the new publication. Nonetheless, I would like to know how much more this new publication will cost in comparison with the present procedure.

Mr. Al-Turki made the following statement:

I support the discontinuation of the coverage of Article IV consultations in the Annual Report. With respect to the new publication of IMF country assessments, I agree with the view that this will just duplicate existing and publicly available information.

Mr. Lushin made the following statement:

This chair supports the staff's proposal as well as Mr. Toribio's suggestion with regard to the title of the new publication. We also agree with Mr. Shaalan's suggestion to review this process in one year or earlier, if results are available. While it is correct that PINs are available on the Internet, I would note that not all users of PINs have easy access to the Internet. Although we could reduce costs by distributing PINs in electronic form only, such a measure would entail forfeiting a considerable amount of potential readers of PINs.

Mr. Maatan made the following statement:

> I can support the second option recommended by the staff. The publication of the IMF country assessments three times a year will serve as a formal compilation of PINs. The decision whether or not to release a PIN should remain the prerogative of each country concerned.
>
> With respect to the Annual Report, the specific chapter on Article IV consultations should be retained in order to reflect the work done by the Executive Board during the financial year. This chapter should be short, with one paragraph describing the Article IV consultation process and another outlining the new publication. Further, a table listing Article IV consultations should be included in the Annual Report.

Ms. Heinonen said that she could support the staff's proposal.

The Deputy Director of the External Relations Department confirmed that the Annual Report would include a list of all consultations held during the financial year indicating which consultations led to the release of PINs, as well as a cross reference to the new publication and an explanation of the consultation process.

On the question of the value added of a hard cover publication, the Deputy Director said that the staff had three concerns in mind. The first was related to the point made by Mr. Lushin regarding limited access to the Internet. For some people outside the United States, the use of the Internet remained quite costly. Second, PINs covered a key aspect of the work of the Fund and represented an important source of reference that would be useful in order to answer the numerous requests for information on countries addressed to the External Relations Department. The third concern was to increase the transparency of Fund policy advice and to meet criticism through the timely release of a hard copy version of the PINs.

On the added cost of the proposed new publication, the Deputy Director indicated it would be almost entirely mailing, as the production cost would be fairly modest. With an initial readership of approximately 12,000, the overall cost of the publication could be estimated at $30,000. There would also be a partial offsetting reduction in the cost of the Annual Report.

The title of the publication could be considered further, the Deputy Director said. The staff had considered a name similar to the one mentioned by Mr. Toribio, that is to say "IMF country reviews." However, some confusion could arise from the fact that the published name for recent economic developments (REDs) in the Fund's catalog was "staff country reports." Perhaps "IMF country consultations" could be a possible alternative.

A macroeconomic table would be included in the new publication, the Deputy Director concluded. The staff would also consider the possibility of releasing the new publication concurrently with the *World Economic Outlook* in order to maximize its visibility.

Mr. Daïri pointed out that a hard copy version of the PIN already existed and was distributed as an IMF publication once it was approved. With more than 100 million people connected to the Internet, a distribution of 12,000 hard copies would not likely make a significant impact. If the intention was to make a substantial contribution in addition to publication on the Internet, consideration should be given to publishing 100,000 or more copies.

The Acting Chairman remarked that reaching 12,000 readers would represent a good result. Summing up the discussion, he said that there been a broad consensus in the Board to accept the staff's second option, which was to discontinue the coverage of Article IV consultations in the 1998 Annual Report and to issue the first volume of the new publication in May 1998, if possible. The Annual Report would include a list of all the countries for which Article IV consultations had been carried out and those for which PINs had been issued. The list would be published with a cross reference to the new publication. It would be necessary to review whether the suggestion to provide more detailed information concerning Article IV consultations and lessons to be drawn from them was feasible.

A few suggestions relating to the title of the publication and to the possibility of a joint or simultaneous publication with the *WEO* would need to be considered, the Acting Chairman said. The question of costs would also have to be reviewed. The experience with the new publication of PINs would need to be reviewed reasonably soon, possibly one year after the first publication had been released. On that occasion, it would be possible to determine whether the new publication represented a useful addition to the publication of PINs on the Fund's website.

The Executive Board took the following decision:

1. The Executive Board approves the recommendation to discontinue the coverage of Article IV consultations beginning in the *1998 Annual* Report and to issue three times each year volumes of the Press Information Notices released over the preceding three-month period, beginning with a volume covering the period January 1–April 30, 1998, as set forth in EBD/98/40 (5/4/98).

Decision No. 11725-(98/54), adopted
May 18, 1998

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/98/53, (5/15/98) and EBM/98/54 (5/18/98).

6. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 98/7 are approved.

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Assistants to Executive Directors as set forth in EBAM/98/95 (5/14/98) is approved.

APPROVAL: June 30, 2000

SHAILENDRA J. ANJARIA
Secretary