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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/3

3:00 p.m., January 8, 1993

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	T. P. Thomas, Temporary
	Wei B.
T. C. Dawson	
	G. A. Heinen, Temporary
E. A. Evans	
	S. Vori, Temporary
	J. A. Solheim
	N. Tabata
J. E. Ismael	
D. Kaeser	
A. Kafka	G. Bindley-Taylor, Temporary
	G. Y. Glazkov, Temporary
	I. Martel
R. Marino	
	O. Kabbaj
L. J. Mwananshiku	
D. Peretz	J. Dorrington
G. A. Posthumus	
	Y.-M. T. Koissy
S. Schoenberg	
A. S. Shaalan	Y. Y. Mohammed
D. E. Smee	G. F. Murphy
A. G. Zoccali	

J. W. Lang, Acting Secretary
R. I. Vera-Bunge, Assistant

Also Present
IBRD: R. Nallari, Latin America and the Caribbean Regional Office. European I Department: M. Russo, Director. European II Department: V. R. Koen. External Relations Department: S. J. Anjaria, Director; H. Puentes. Legal Department: W. E. Holder, Deputy General Counsel. Policy Development and Review Department: J. Ferrán, Deputy Director. Research Department: M. Goldstein, Deputy Director; G. J. Schinasi. Secretary's Department: R. S. Franklin, A. Jbili, M. Miller, A. Mountford, P. B. Smith. Western Hemisphere Department: S. T. Beza, Counsellor and Director; J.-P. Amselle, A. M. Jul, S. Kawar, E.-G. Lim, M. Torres. Personal Assistant to the Managing Director: R. Saunders. Advisors to Executive Directors: M. B. Chatah, S. K. Fayyad, Hon C.-W., J. Jamnik, P. A. Merino, J.-C. Obame. Assistants to Executive Directors: S. Al-Huseini, M. Blome, J. H. Brits, Deng H., R. G. Ferrillo, A. Galicia, H. Golriz, V. Harris, G. Lindsay-Nanton, G. J. Matthews, J. A. K. Munthali, S. del C. Olgiati, D. Saha, S. Shimizu, A. Verjbistki, A. Viirg.

1. GRENADA - 1992 ARTICLE IV CONSULTATION

The Executive Directors continued from the previous meeting (EBM/93/2, 1/8/93) their consideration of the staff report for the 1992 Article IV consultation with Grenada (SM/92/214, 12/7/92). They also had before them a background paper on recent economic developments in Grenada (SM/92/221, 12/18/92).

Mr. Dorrington made the following statement:

> Let me say first how much I welcome the news given to us this morning by Mr. Murphy. You will no doubt regard it as doubly welcome because it enables me to delete about a hundred words from my statement. Even so, it still has one word for every 82 inhabitants.
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> As this chair has noted before, the policy prescription for Grenada in the absence of an independent monetary and exchange rate policy is clear. A strong fiscal policy is absolutely essential. I note that in April of the past year some of the measures advocated in the 1991 Article IV discussion were implemented. Moreover, the 1993 budget includes some important steps in the right direction, but much more is needed to restore health to the economy. In the short and medium term, I would identify three areas where the Government should be concentrating its efforts: the tax system needs to be thoroughly overhauled; public sector employment needs to be cut even more severely than planned hitherto; and the public enterprise sector needs urgent attention.
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> I understand that the Government will not have an easy time convincing the electorate of the desirability, or perhaps I should say the ultimate inevitability, of these measures. When I look at Grenada's history, I have some sympathy with the authorities' difficulties. I am sure Mr. Murphy will agree that it would be easier if we were not starting from here. But we are. And when difficult decisions are delayed, they often become more, not less, difficult. To give one specific example, it would surely be easier to abolish the ceiling on lending rates when it is not binding than to wait until it is. The Government also needs to convince the international donor community that it is serious about putting Grenada back on its growth path. Support from the international donor community will be vital, not only if Grenada is to be able to continue with its planned program of investment in the context of domestic fiscal restraint, but also if it is to continue to persuade its other external creditors to provide the generous treatment that is needed. As Mr. Murphy points out, creditors came up with some useful further rescheduling in the past year, but more will be needed, given the size of the debt overhang.

Some efforts have already been made to reverse the shrinkage of the tax base, as is detailed in Appendix I of the background paper and in the budget. I was pleased to note the staff estimate in its opening remarks today that the combination of revenue-raising and expenditure-reducing measures announced in the budget could improve the budget position 1 or 1.5 percent of GDP. The earlier measures vary considerably in significance, and perhaps it would have been useful if Appendix I had included estimates of the revenue consequences of each of the measures noted. In any event, the impression I get is of a set of ad hoc measures with a number of exemptions and multiple rates rather than a detailed implementation of a clear overall strategy. There is, however, help at hand for the Government in the form of the UNDP study completed last September. I am glad to note from Mr. Murphy's statement that the Government has declared itself ready to act on the results of this study, but, like Mr. Dawson, I urge them to move as quickly as possible in drawing up a detailed action plan and implementing it.

I wish to comment specifically on only one tax, that on foreign exchange purchases. I welcome the reduction in the rate from 5 to 4 percent and would urge the Government to consider further reductions as part of its overall strategy of raising revenue through less distorting taxes. It would certainly be pleasing not to see again the penultimate sentence in the staff appraisal regarding the lack of a time frame for elimination of this multiple currency practice.

On the public sector wage bill, I recognize that the Government has already designed a tough redeployment program, but I sympathize with the staff's recommendation that the Government should be prepared to go even further than the 20 percent cut in staff already envisaged. Moreover, it will be important to maintain visible discipline over public sector wages. I note that wage settlements in the government sector have been in the form of lump awards covering several years. Last year's 11 percent increase for several years gave the wrong kind of signal.

Further sales of public assets are clearly necessary, and, in the light of Mr. Murphy's comments, all I wish to say now is that prior to privatization, the authorities should set realistic tariffs so as to enable public utilities to cover their costs without continuing indirect subventions from the Government.

The short paragraph in the staff report on data issues makes for depressing reading. Action is needed to improve the data for the national accounts, prices, labor market, external capital expenditure, external debt, government revenue, and government current and capital expenditure. Producing a background paper with 35 tables must have been a creative challenge. I note that

Grenada has received technical assistance, but progress has been hampered by staff turnover, and I wonder what prospects there are for real improvements that would help the authorities in their task of both strengthening the economy and convincing others of their progress when it is made.

I turn now to some structural issues. At first sight, the plan to double banana production with offshore support looks like a questionable strategy, but on the grounds of diversification and concerns specific to bananas. However, I understand this doubling simply represents the bringing back into production of one estate that had been fallow. Perhaps the staff could confirm that that is in fact the case.

I am skeptical about the prospects for the recovery of cocoa production, given the current trends in world prices. I wonder on what basis the Government of Grenada hopes for recovery in this sector. More generally, I wonder whether greater diversification is possible even within agriculture. I am thinking of high-value products for markets in developed countries, perhaps not least the U.S. market, given Grenada's position on the globe. I think that the new investments in the tourism sector continue to be justified, despite the fragility of the market, but I wonder whether the forecast of very modest growth in arrivals in 1993 and 1994 reflects capacity constraints in advance of the completion of new hotels. If so, would I be right in presuming we can expect substantial increases in arrivals soon after that? In any event, if the Government is to go ahead successfully with further new investments, it has to depend on high levels of external financing. That in turn would be at risk if there is not a considerable strengthening of the fiscal position. Fiscal consolidation is the heart of the matter.

Mr. Bindley-Taylor made the following statement:

Fiscal imbalance remains at the center of the economic problems of the Grenadian economy. After the ill-fated attempt to abolish income taxes in 1986, the fiscal deficit grew from 5.6 percent of GDP in 1986 to 10.7 percent in 1990. It is to the credit of the authorities that in 1991 and 1992 efforts were made to reintroduce some form of taxes on income, as well as other revenue-raising measures. At the same time, efforts were also made to control expenditures by reducing the size of the civil service and controlling other recurrent costs, such as goods and services.

It is therefore highly regrettable that the efforts at revenue generation have resulted in gains that can at best be described as marginal. On the one hand, current revenue in response to the new revenue measures rose from 26.4 percent of GDP in 1990 to 27.6 percent in 1991, but dropped to 27 percent in 1992. The explanation for this seems to lie in the areas of tax avoidance, ad-hoc tax exemptions, and poor tax administration. On the other hand, expenditure-reducing efforts were offset by the simultaneous granting of large wage increases and the additional expenditures for the payment of severance benefits to retrenched civil servants. With current revenue increasing marginally and current expenditure remaining fairly constant, capital expenditure reductions were utilized to contain the deficit. What is even more unfortunate is that the fiscal deficit continues to be financed by a combination of new payment arrears, the resources of the National Insurance Scheme (NIS), and one-off gains from privatization.

In the monetary sector, the slowdown in the growth of credit to levels below the growth of broad money has resulted in the strengthening of the country's external assets. This, together with an inflation rate that averaged less than 3 percent per annum between 1986-91 and the moderation of wage settlements in the private and public sectors, has allowed Grenada's exchange arrangements within the Eastern Caribbean Central Bank to remain satisfactory.

In the medium term, the reduction of the current fiscal imbalance, improvements in physical infrastructure, and the strengthening of traditional and nontraditional exports are of critical importance.

With respect to the fiscal imbalance, we urge the authorities to strengthen the supervision and administration of the tax system, especially in the area of taxes on international trade. In addition, we believe that the use of exemptions on import duties and other tax concessions to both the private and public sector enterprises should be reduced if not abolished. The tax on foreign currency purchases should also be abolished. The overall aim should be to raise the level of the proportion of revenue to GDP to its former average of 30 percent. In this regard, we welcome the fiscal measures outlined in Mr. Murphy's statement, particularly the reference to the hiring of a tax consultant to prepare a comprehensive fiscal reform program. On the expenditure side, clearly the tendency for large discretionary increases in civil service wages must be tempered in 1993 and in the future. Moreover, there is need for additional efforts at trimming the size of the civil service and for the rationalization of other areas of current expenditure.

The strengthening of the fiscal position, if pursued vigorously, should lead not only to greater confidence in government policy, but also will reduce the growing illiquidity of the NIS caused by its substantial holding of government paper and provide resources to reduce the existing arrears to both domestic and foreign creditors.

We are in broad agreement with the thrust of the Public Sector Investment Program, particularly its emphasis on improvements in infrastructure and in agriculture. However, we are concerned about the low level of implementation and urge the authorities to strengthen their capacity in this area. We note also that the lack of counterpart funding has slowed the execution of the Public Sector Investment Program. In this context, strengthening the fiscal accounts will improve the level of domestic resources and may also generate confidence within the donor community, so that additional capital grants may be forthcoming.

In the external sector, the decline in traditional export products seems not to be cyclical; we are, therefore, encouraged by the growth in nontraditional exports and urge the authorities to pursue vigorously all avenues for these exports. The importance of tourism requires that this relatively competitive industry be continuously upgraded, and we welcome the current activity to expand the number of resort-quality hotel rooms.

Notwithstanding the rescheduling of debt in 1989 and recent debt forgiveness, outstanding arrears to external creditors remain a problem. More needs to be done. We urge the authorities to take comprehensive measures to halt and reverse the trend of financing through the buildup of arrears and to seek, wherever possible, further accommodation with creditors for the rescheduling of current arrears.

On a related matter, we note the paucity of data in a variety of areas. We would urge the authorities to take advantage of technical assistance that can be provided by the multilateral agencies so as to improve the quality of their national statistics.

Mrs. Martel made the following statement:

After years of strong private sector-led growth, averaging 5.5 percent per year during 1985-89, Grenada experienced a noticeable slowdown in 1991-92 under the mounting pressure of weakness in public finances and the worsening agricultural terms of trade.

The immediate policy target in Grenada is to stabilize its public finances while pursuing the implementation of structural policies so as to provide an environment conducive to growth.

This chair welcomes the very important steps taken by the authorities to tackle the questions of public finances. Let me just make a few more specific comments on this issue.

The fiscal measures taken in 1991 and 1992 went in the right direction. They included reinstating the income tax abolished in 1986, raising import duties, and containing current expenditures through reductions in civil service staff and restraint in outlays for goods and services. However, these changes in taxation and expenditures have not had the hoped-for results. Current central government revenues barely increased from 26.4 percent of GDP in 1990 to an estimated 27 percent in 1992, and current expenditures marginally decreased from 29.6 percent of GDP in 1990 to an estimated 29.5 percent in 1992. In fact, the turn of the consolidated public sector from a deficit of 8 percent of GDP deficit in 1990 to a 1.5 percent surplus in 1992 was caused principally by a sharp downturn in public investment of 8 percent of GDP between 1990 and 1992 and by receipts from privatization.

More needs to be done with respect to fiscal consolidation. Like other speakers, I am pleased to hear from Mr. Murphy that the Government of Grenada has accepted the UNDP proposals for a comprerehensive fiscal reform, but, like them, I urge the authorities to design precise measures and implement them as soon as possible. The program to reduce government employment, which started in 1991, must also be aggressively pursued and brought to completion. We note that the goals of this program are quite reasonable, as, even after its implementation, employment in the Central Government as a share of total employment will still be higher in Grenada than in any other country of the Eastern Caribbean.

A tightening of the fiscal stance would also allow the Government to stop borrowing from the National Insurance Scheme. The Government's practice of accumulating arrears to the National Insurance Scheme and then issuing Treasury bonds to reduce these arrears can seriously affect the liquidity of the National Insurance Scheme. If the National Insurance Scheme's balance sheet were allowed to deteriorate further, the scheme might be unable to fulfill its obligations in the future, which could result in demands for budgetary transfers.

Improving the Government's fiscal position is also essential for growth. The Central Government's dissavings have led to a lack of domestic funds for investment projects. This has slowed the implementation of the Public Sector Investment Program with spending envisaged at $62 million (of which 24 percent was locally financed and 76 percent externally financed).

I would like to make two more remarks. First, the staff report shows that private real wage increases in the period 1986-1990 were roughly in line with real GDP growth. Since then, this has not been the case; in 1991 and 1992, real wages in the private sector increased by 17.3 percent while real GDP growth was only 1.7 percent. This chair hopes that restraints will be put on further wage increases so as not to damage Grenada's external competitiveness.

Second, the external debt situation has been improved by the two rescheduling operations in 1991 and debt forgiveness in 1992. However, new arrears have continued to accrue in 1991 and 1992. Given the need for continued external support in the medium term, more progress is needed in making payments.

In conclusion, the authorities' determination to vigorously pursue the course of necessary corrective actions should help foster the international community's confidence and stimulate growth.

The staff representative from the Western Hemisphere Department explained that the projected 6-7 percent increase in tourism for 1993 and 1994 was based on the projected recovery in industrial countries' demand taken from the World Economic Outlook and the expected increase in domestic prices.

As to the possibility of reducing both unemployment and current expenditure, in comparison with other member countries of the Eastern Caribbean Central Bank, Grenada's current expenditures were at least 4 percentage points of GDP higher than those of the next highest country, the staff representative noted. Some member countries had a ratio of current expenditures to GDP of 20-21 percent, while Grenada's figure was 29.5 percent. Thus, there was considerable scope for reducing current expenditures in Grenada. Similarly, in other countries of the Eastern Caribbean, public sector employees made up about 4 percent of the population, while in Grenada the figure was 4.6 percent. The staff had advised the authorities to reduce public sector employment by about 5 percent of the labor force. Although that reduction represented about 300 positions more than they had intended to reduce, employment would continue to be higher than the regional average. Moreover, Grenada had by far the largest ratio of wages to GDP in the region. Therefore, there was an ample range for further reductions in that area.

Even with the expected doubling of banana production by replanting idle land, Grenada would be just above its historical average of banana production and exports, the staff representative observed. Furthermore, the prospects for increased cocoa production of 10-15 percent were encouraging, because Grenada's production was so small that it would not affect world market prices, and its high quality cocoa fetched premium prices despite the recent steep decline in international cocoa prices on average.

The staff's modest assumptions on tourism growth reflected capacity constraints, the staff representative from the Western Hemisphere said. Prior to recent investment in two hotel projects, capacity had not increased since 1985, and at present occupancy rates were high.

Mr. Murphy pointed out that Grenada was on its way to fiscal reform. The Prime Minister, in the latest budget speech to Parliament, had used harsh words in describing the tax system--harsher than some of the criticism heard in the present discussion. However, there would be not only political and social constraints, but also technical ones in creating the capacity for carrying out fiscal reform; hence, the results of the reform would be delayed until 1994.

In the last sentence of his statement, Mr. Murphy recalled, he had mentioned Grenada's need for assistance from the donor community in the future, and that need had been expressed in other Directors' statements as well. The fact that he had referred to it in only one sentence did not in any way mean that he did not consider it important. In fact, it was vital that Grenada receive bilateral support for the future.

The Acting Chairman made the following summing up:

> Executive Directors were in broad agreement with the staff appraisal. They expressed particular concern about the persisting imbalance in government finances which were having a negative effect on investment and, thus, on economic growth. Directors also noted the adverse effects of exogenous developments, including the substantial decline in the prices of its main export crops in the agricultural sector.
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> Directors focused considerable attention on fiscal policy, which was seen quite explicitly as being at the heart of Grenada's problem. They believed that steps were necessary to establish a strong fiscal position, and that the authorities needed to implement without delay actions to achieve a durable strengthening of the budget position. Such an improvement would be essential to foster the conditions for private sector investment, attract donor support, and generate adequate public sector savings to finance the needed public investment.
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> Directors commended the authorities for the reinstitution of an income tax system, the reduction in government employment, and the privatization of public enterprises. Nevertheless, the scope of the adjustment clearly had been insufficient to address the deep-rooted fiscal problem and to avoid the emergence of new arrears on government obligations. The emergence of these arrears were of concern to Directors, and their views were expressed that attention needed to be focused on steps to reduce the arrears.

Revenue actions in effect had been too narrowly based, which had tended to worsen the problem of tax avoidance. The exemptions in the tax system, and indeed compounded by some high tax rates, had limited the base on which revenues were generated.

Directors welcomed the measures included in the government budget for 1993, but noted that the measures fell short of what was needed to meet the Government's financing requirement in 1993 and into the medium term. Particular concern was expressed about the need to generate resources sufficient to cover the domestic cost of the public sector investment which had borne the brunt of much of the recent efforts to constrain the budget deficit.

Directors encouraged the authorities to remove the ceiling on lending rates in order to strengthen the banks' capacity to attract deposits. Directors also encouraged the authorities to broaden the tax base by reducing exemptions sharply, and to restrain current expenditures by expanding the scope of the planned reduction in government staffing, and avoiding across-the-board pay increases until such time as the fiscal situation had been strengthened sufficiently.

For the medium term, the reform or the adjustment in the fiscal position would depend importantly on structural reforms, thereby avoiding the need for frequent changes in the composition and rates of the tax system, which were likely to be damaging to the private sector confidence.

More generally, with respect to investment, Directors viewed with concern the sharp reduction in capital spending, a reduction which had fallen below the minimum level required to ensure adequate maintenance of the existing infrastructure. They encouraged the authorities to increase the level and quality of public sector investment as foreseen under the Public Sector Investment Program. Again, this was another important reason for the need to achieve overall fiscal consolidation.

With respect to the structural measures, Directors recognized the need for steps to be taken to diversify the production base of the economy, and indeed welcomed some of the steps that were foreseen.

Directors noted the negative developments that have affected the agricultural sector, including the nutmeg sector, and some of the risks that the agricultural sector faces, particularly the banana sector, but at the same time this underscored the importance of diversifying agricultural production into the nontraditional agricultural products.

In the same context, Directors welcomed the steps that were being taken to diversify and broaden the base for tourism, and tourism, indeed, was seen as an area for potential growth in the economy.

Directors also noted the steps that were being taken to diversify the economy through the development of small manufacturing. Directors urged the authorities more generally to take advantage of external assistance from donors in the international community, particularly with respect to improving the quality of economic data. Directors also noted that the current fixed exchange rate system had served Grenada well and this, of course, underscored the importance of undertaking the necessary fiscal adjustments, and controlling the growth in public and private sector wages in order to enable Grenada to maintain its external competitive position. Directors also urged the elimination of the existing multiple currency practice.

2. MESSAGE OF CONDOLENCE

The Acting Chairman noted that he had sent a message of condolence after the recent death of Mr. Jorge del Canto, former Director of the Western Hemisphere Department.

3. UNAUTHORIZED DISCLOSURE OF INFORMATION

Mr. Kaeser said that he had recently sent to Executive Directors a note stating that he had been surprised to read in press reports that the Fund's Executive Board would be discussing the Russian economy shortly and that the Board discussion would not be expected to lead to any formal action. More action should be taken to protect the confidentiality of Board documents and the Board agenda. Once the general public was informed of the dates of important Board discussions, journalists would attempt to gather information. Furthermore, the dispersion of information about the schedule of Board discussions exposed the members of the Board to pressure from special interest groups. He wondered why it was easier to safeguard the confidentiality of the World Economic Outlook (WEO) document and other important papers than the confidentiality of the agenda of the Board.

Mr. Dawson remarked that the dates of Board discussions on countries were almost universally known, and the press generally knew what was on the daily agenda. Furthermore, disclosures of the Board's agenda or uninformed observers speculating on the outcome of Board meetings were not important. Rather, action should be taken on the recent disclosure of the WEO report.

Mr. Kafka considered that it was not the job of the Fund to keep the public informed of the Board's agenda. The Fund had to maintain a high degree of confidentiality. Therefore, the agenda should be circulated confidentially.

As to the recent leak of the WEO document, although the document was to be published shortly, that was not an excuse for its premature disclosure, Mr. Kafka said. There should be a rapid investigation into how the Fund, other international organizations, and governments handled confidential Fund documents, including the records of Board discussions, which, if disclosed, were more embarrassing than documents that were to be eventually published. The staff should formulate a questionnaire, to be approved by the Board on a lapse of time basis, that would be sent throughout the Fund and to other international organizations. Each Executive Director could send the questionnaire to the countries in his constituency. The gathering of information from the questionnaire would take two or three weeks. Furthermore, perhaps later the staff could present the Board with a proposal for investigations to be launched ipso facto in the case of any future leaks, so that the decision to launch the investigation would not have to be brought before the Board separately again.

Mr. Peretz considered that disclosures of Board discussions caused the most damage. Nonetheless, the leaks of documents were harmful, too, particularly in the case of the WEO document, whose confidentiality the Fund had gone to great lengths to protect. The dates certain items on the agenda were to be discussed were usually known outside the Board, particularly country items; however, there were occasions when the Board would prefer that they not be known.

As to Mr. Kafka's proposal, he would like to hear others' opinions, Mr. Peretz remarked. Given the care that the Fund had taken in protecting the confidentiality of the WEO document, including numbering the copies, and having said in advance that the Fund would hold an inquiry, he thought that the questionnaire should contain, in addition to general questions, specific questions on the WEO document.

Mr. Dawson agreed with Mr. Peretz's suggestion, as it would make the questionnaire more relevant for the respondents.

Mr. Smee agreed with Mr. Peretz's recommendation and with Mr. Kafka's views as well.

Mr. Solheim concurred with Mr. Dawson and Mr. Peretz and other speakers that there should be a limited investigation of the WEO leak, but it should not be too costly. There should not be an overreaction to Mr. Kaesar's concerns.

Mrs. Martel said that she fully agreed with Mr. Kafka's proposal for a questionnaire and with Mr. Kaesar that the main issue was not only the confidentiality of documents but also the confidentiality of the Board's schedule.

The Acting Chairman remarked that the proposal for a questionnaire was acceptable to the Executive Directors.

Mr. Kabbaj said that he supported Mr. Kafka's proposal. However, he wondered how the inquiry would be implemented, who would be responsible, and what guidelines would be used that could be applied when the issue of leaks was addressed in the future.

Mr. Wei stated that, while endorsing Mr. Kafka's proposal, he wished to make two points. First, previous investigations had produced disappointing results, and, in the case of the WEO paper, more than 400 copies had been circulated and would be difficult to trace. Second, like Mr. Solheim, he was concerned about the cost of the investigation and how much manpower would be needed. He would appreciate receiving a preliminary estimate of the costs involved.

The Acting Chairman remarked that the recipients of the numbered WEO document could be requested to return their copies.

Mr. Tabata said that he agreed with Mr. Kafka. However, there was a distinction between leaking the content of a Board discussion and leaking the WEO document. In order to stop the leak of the content of a Board discussion, limiting participation might be an idea.

Mr. Evans considered that the suggestion of returning the WEO document to the Fund should not be put aside lightly. The suggestion could not be carried out immediately because the published version was not yet available. In the meantime, the recipients would need the draft version.

He concurred with Mr. Peretz that the confidentiality of the substance of Board discussions was most important, while the confidentiality of documents should be taken seriously, Mr. Evans commented. His authorities went to some lengths to protect documents, although they were regularly faced with requests, particularly by nongovernment organizations, for Fund documents. Those requests were refused on the ground that to provide them would be a breach of the Articles, which was the advice of the Fund's Legal Department. However, that stance became rather difficult to maintain when documents were so readily leaked to the press, as on the recent occasion, and nothing could be done about it. Nevertheless, there should be follow-up to the latest leak, and the procedure suggested by Mr. Kafka was at least a useful start.

Mr. Marino said that, like Mr. Kabbaj, he would like to know what the probabilities of having a successful inquiry were, whether a questionnaire had been used in the past, and what investigative techniques had been used. Resources had been spent protecting the WEO document, and if resources were spent in an investigation without any result, that would provide a lesson for the best approach to use in the future.

The Acting Chairman pointed out that Mr. Kafka's recommendation was not to investigate the leak of the WEO document, but, rather, to review who were the recipients of the document and what were the practices and procedures that had been implemented to protect the confidentiality of all Fund documents. In addition, Mr. Peretz had said that, in order to provide more focus to the investigation, questions should be raised that were specific to the latest WEO leak, such as what were the practices and guidelines that had been employed. Thus, the review would provide the staff with information on the recipients' procedures, and, from that review, a conclusion could be drawn on how the Fund's labeling practices might or might not complicate its ability to protect a document.

Protecting documents had become increasingly complicated and raised a number of questions, the Acting Chairman remarked. Did putting numbers on the WEO document suggest that the procedures for guarding confidentiality should be more stringent for those documents than for documents without numbers? If documents had been numbered in the past and were no longer, did that mean that present documents should be subject to less security? It could mean that there was less likelihood that they would be leaked. Did present users of the WEO document, such as individuals and organizations, fully comprehend the significance of numbering the publications, and did that send them a signal that they should take precautionary measures when receiving other documents from the Fund? What did the different document classifications and the term "confidential" mean to them? Did users of documents understand that the confidential label meant that a document was not for public use and was on the Board's agenda? Was the label given a different significance in other organizations? Those were some of the questions that the investigation could explore. The staff could develop the questionnaire in the near future and circulate it to Directors shortly.

Mr. Posthumus said that he particularly supported a questionnaire based on Mr. Kafka's and Mr. Peretz's joint proposal.

Mr. Kafka considered that Mr. Peretz's suggestion gave a focus to the inquiry that was helpful and would not add either to the cost or the trouble involved.

The Acting Chairman observed that Directors agreed that an investigation, based on proposals made by Mr. Kafka and Mr. Peretz, should be conducted.

The Executive Directors concluded their discussion on the unauthorized disclosure of information.

APPROVED: August 13, 1993

LEO VAN HOUTVEN
Secretary