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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 00/66

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Contents

	Page
Executive Board Attendance.....	1
1. Grenada—2000 Article IV Consultation.....	3
Decisions Taken Since Previous Board Meeting	
2. PRGF Trust and PRGF-HIPC Trust—Reserve Account—Review.....	17
3. PRGF-HIPC Trust—Amendment.....	17
4. Overdue Financial Obligations—Modalities of Gold Pledge for Use of PRGF Trust Resources under Rights Approach—Amendment.....	17
5. The Philippines—Stand-By Arrangement—Extension of Period.....	18
6. Approval of Minutes.....	18

Executive Board Attendance

S. Fischer, Acting Chairman

Executive Directors

T.A. Bernes

A. Mirakhor

Alternate Executive Directors

M.F. Melhem, Temporary
T.-M. Kudiwu, Temporary
P. Charleton
A. Del Cid-Bonilla, Temporary
T. Skurzewski, Temporary
D.H. Kranen, Temporary
A.G. Zoccali
C.A.E. Sdrlevich, Temporary
Siti Mariam Mohd. Yusof, Temporary
R.P. Watal, Temporary
J. Sipko, Temporary
J. Sigurgeirsson, Temporary
M. Lundsager, Temporary
I. Mateos y Lago, Temporary

T. Belay, Temporary
S. Vtyurina, Temporary
R. Burgess, Temporary
A. Maciá, Temporary
K. Sakr, Temporary
W.C. Mañalac, Temporary
Liu Z., Temporary
I.C. Ioannou, Temporary
S. Hinata, Temporary

A.S. Linde, Acting Secretary

A. Tiffin, Assistant

Also Present

IBRD: C. Tsatsos and C. Visconti, Latin America and Caribbean Regional Office. Policy Development and Review Department: J. Seade. Secretary's Department: P. Gotur. Western Hemisphere Department: C.M. Loser, Director; M.A. Da Costa, E.J.G. Lundback, S. Shah, F. van Beek. Advisors to Executive Directors: P.R. Fenton. Assistants to Executive Directors: S. Ciaralli.

1. GRENADA—2000 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 2000 Article IV consultation with Grenada (SM/00/112, 6/12/00), together with a statistical appendix (SM/00/119, 6/15/00).

Mr. Bernes submitted the following statement:

My Grenadian authorities would like to express their sincere appreciation to staff for the spirit in which they engaged in the consultations and for the well-balanced report. Staff were sensitive to the concerns of the Government of Grenada, and the report recognizes Grenada's successes, as well as spelling out clearly what remains to be done. The authorities are in broad agreement with Staff's analysis and policy advice and plan to tackle the problems identified over a medium-term horizon.

Recent Economic Developments

Grenada has in essence just finished the first phase of a long-term strategic plan. The aim of this phase was to restart economic growth by building public infrastructure and beginning the process of structural reform. Since the mid-1990s, Grenada has been on a path of generally improving economic conditions, despite recurring natural disasters, with the growth of real GDP reaching 6.8 percent in 1998 and 8.2 percent in 1999. The buoyant construction sector, including house building, rural rehabilitation and port expansion made important contributions to the improvement in economic performance. The broadening of the economic base in areas such as telecommunications, financial services, and electronics manufacturing was also a welcome development. The unemployment rate has followed a downward path in recent years reaching 12.5 percent at the end of 1999. Nevertheless, the poverty rate remains high at 32.7 percent.

Policy Requirements Going Forward

Looking ahead, there is broad agreement between the authorities of Grenada and staff on objectives and policy requirements. The principal objective is to achieve sustained rates of growth that would be sufficient to substantially reduce the high rates of poverty and unemployment. This will require: (i) attracting more private investment; (ii) achieving a level of fiscal savings sufficient to ensure improvements in education and skills training, social services, and safety nets for the poor, and (iii) increasing the efficiency of the public sector.

Reducing Poverty

The authorities recognize that growth alone is not enough to reduce poverty by the extent desired; a holistic approach to development is needed. The last budget contained several measures aimed at reducing poverty, including improved safety nets for children and the elderly. In the areas of health care and education, the authorities are currently developing long-term plans based on broad consultation with the public. The health care plan will include a response to HIV/AIDS. As well, a new hospital is being constructed. Among the efforts that will be made to address the low level of educational attainment plaguing Grenada will be improved and additional schools and increased training of teachers. The goal is to provide high quality universal secondary education. Computer literacy education is already being provided at selected primary schools and community centers. All secondary schools are computerized.

As staff note, most of the poor and unemployed comprise women, the youth, and children who live in rural areas which have been affected seriously by the decline in the banana industry. Resuscitating the banana industry, which is already underway with the financial assistance of the European Union, will improve their situation. The authorities also hope to locate other industries in these areas. For example, recently telemarketing firms have engaged a substantial number of people in rural parishes.

Grenada will request assistance from the international community in preparing a PRSP.

Increasing Private Investment

With economic growth having picked up significantly, the intention now is for the government to make room for the private sector to become the engine of growth, while accelerating public sector reform and addressing the high level of poverty in the country. There are favourable synergies in this strategy in that many of the policies required to reduce poverty also are important in promoting private investment. In particular, policies directed at boosting the education and health of the population will also create a more favourable environment in which to invest.

The earlier privatization of electricity and telecommunications, and the beginning of increased competition in these sectors, means that these important services are well placed to contribute to the favourable investment climate. In addition, the authorities will cooperate with the private sector to address remaining obstacles to investment in Grenada. They also will provide advice on export markets and export promotion.

It should also be noted that the policies implemented to date are bearing fruit. For example, there is considerable renovation and expansion taking place in the small and medium-sized hotel sector. As well, land use applications and approvals have risen significantly.

Increasing Public Sector Savings

The authorities understand the importance of macroeconomic stability for achieving their objectives and therefore for the need to generate sufficient public sector savings to fund their plans for social and infrastructure spending. In this context, the government recognizes the importance of a stable and robust tax system that yields an appropriate level of revenues relative to economic activity. They are seriously considering reintroducing a VAT and would like to thank FAD for a very helpful study on this topic. However, before such a step can be taken the ground must be carefully prepared. This will include a thorough review of the tax system to ensure that it is warranted and, if it is, a participatory process to build public support for such a tax. Further technical assistance on implementation will also be necessary. Technical assistance is also needed to improve the yield from corporate taxation. The authorities do not share staff's concern about the potential tailing off of fees from offshore financial institutions in the near term, as they believe there is still substantial scope for new entrants to the sector.

Improving Public Sector Efficiency

The authorities place high priority on modernizing the machinery of state by improving the incentive structure for public servants and commercializing some activities now being done by the government, and by improving governance. They agree with staff on the need to reduce the public sector wage bill and to base compensation on performance. There has been some progress in these difficult areas, but more remains to be done and external assistance may be required to achieve meaningful results. The government has started to pay one-off performance rewards for some public servants which has been well received by the unions and, in future, three years of consistent performance will be required to get a permanent salary increase. The government is also involving unions more actively in discussions of economic performance and the country's ability to pay public sector wages in hopes of achieving further improvements in the compensation system. The elaboration of the national poverty reduction strategy will help in this regard as well.

With respect to the need to reduce the number of employees, there is a freeze on public sector hiring and attrition is replaced only when there is a good case. It would be desirable to proceed more quickly than this, but given

the legal protections afforded workers, to do so would require resources to buy workers out. The authorities hope to obtain World Bank assistance with this.

With respect to improving governance, the World Bank has been asked to send a mission to conduct a public sector spending review with a view to improving efficiency and controls. As well, two commissions have been established-- one on the constitution, the other on the criminal code.

The Financial Services Sector

The authorities view the offshore financial services sector as a promising area for creating jobs and generating government revenues. But they fully realize that for this to be the case over the medium term, the industry must be adequately regulated and supervised. It is not in Grenada's interest to allow its reputation to be tarnished, or to place itself at risk of large financial liabilities as a result of illegal or unscrupulous activities. The Grenada International Financial Services Authority, an independent authority, was established in January 2000 to supervise and regulate the sector. Grenada does considerable due diligence prior to granting a license, including contacting the FBI and Interpol. Also, the Anti-Money Laundering Act came into force on April 17, 2000. In light of the intense scrutiny that various international fora have focussed on the OFCs, the authorities would like to emphasize that they will cooperate with regional and international bodies to ensure that the sector is well regulated. Also, the Eastern Caribbean Central Bank has requested an FSAP mission to do a detailed assessment of the financial sector and financial sector policies in its members, which includes Grenada.

Finally, Grenada has expressed its intention to participate in the pilot study on transparency with the publication of its staff report and looks forward to continued good dialogue with the Fund.

Mr. Mirakhor submitted the following statement:

We thank staff for a clear and well-written report and Mr. Bernes for his articulate and helpful statement. The Grenada economy has performed exceptionally well in recent years. Economic growth surged to 7-8 percent in 1998-1999, boosted by a recovery in agriculture, a pickup in the implementation of infrastructure projects and output gains in manufacturing and services. This sharp upturn in growth occurred against the backdrop of generally prudent macroeconomic policies and progress in implementing structural reforms, notably in the public sector and trade system. Inflationary pressures were subdued, unemployment declined, and although there was a sharp widening of the external current account deficit, it appears to have

found ready financing with the overall balance registering a modest surplus. The Grenada authorities deserve to be commended for these accomplishments.

Looking ahead, the staff and the authorities share common views on the objectives and policy requirements. The key challenge is to ensure that the recent gains on the economic front can be consolidated, that growth can be sustained, and that it is of a quality that helps to address the country's most pressing problem—alleviating poverty and durably reducing the still-high level of unemployment. We note the steps the authorities have already taken in this regard which are outlined in Mr. Bernes statement. We agree that the effectiveness of the authorities' strategy would require firm implementation of a multi-pronged reform effort that would give priority to fiscal prudence to ensure room for improvements in education and skill development, greater private sector involvement, and structural reforms in key areas, including fostering improvements in public sector performance.

We support the thrust of the authorities' fiscal strategy, which is anchored on limiting the central government deficit to levels that can be prudently financed while providing resources to meet the country's infrastructure and social needs. This will require steps to strengthen revenue administration and raise tax compliance. In this regard, we attach particular importance to phasing out of tax concessions and the early completion of the ongoing project to revalue properties if the goal of maintaining the revenue-to-GDP ratio at about 28 percent is to be realized. We also agree that over the medium term, there would be merit in giving consideration to reintroducing the VAT. However, as Mr. Bernes notes in his statement, this will require careful preparatory work in a participatory framework to build public acceptance for such a tax. Experience elsewhere has shown that this can be time-consuming. Technical assistance in this area should help avoid the pitfalls associated with the previous attempt to introduce the VAT. On the expenditure side, we concur with the priority that is to be given to containing the size of the wage bill, keeping a firm grip on interest-lease costs, and ensuring the quality of the public sector development portfolio. On the public sector wage bill, Mr. Bernes notes the need to obtain resources to buy out workers given the legal protection accorded to them. We hope that the World Bank will be forthcoming with assistance in this sphere along the same lines as their successful assistance to other countries.

While the recent widening of the external deficit was easily financed, the staff notes gaps in information pertaining to capital inflows and inconsistencies in debt stocks and flows. We join them in encouraging the authorities to apply resources to ascertain the nature of these flows since they could have important implications for the evolution of debt over the medium term. In any event, the staff's medium term balance of payments projections suggest that, on reasonable assumptions, Grenada's balance of payments

situation is expected to be sound with the prospect of continued modest overall surpluses.

We join staff in commending the authorities for an ambitious agenda of structural reforms which promises to go a long way towards making the public sector more efficient and for the interventions in the area of poverty alleviation. In regards to the latter, we are pleased to note that the authorities intend to request technical assistance from the international community to prepare a PRSP.

Grenada's domestic banking system is sound. However, the recent intensification of competition, combined with an already heavy exposure of some banks to consumer credit, suggest that vigilance on loan quality is warranted. In the offshore sector, we are pleased to note the start up of the GIFSA and commend its efforts to enforce existing legislation and ensure that current standards keep pace with international norms. As Mr. Bernes says, while the offshore financial services sector can play a powerful role in creating employment opportunities and generating government revenues, the industry "must be adequately regulated and supervised". In the light of the intense attention being given to ensure that this sector is well regulated in all countries where they are prominent, we are heartened with the authorities' willingness to fully cooperate with all regional and international bodies.

We commend the authorities for their intention to participate in the pilot study on transparency with the publication of its staff report.

Mr. Portugal and Mr. Dhanpaul submitted the following statement:

We commend the authorities for the substantial economic progress made by Grenada. The island-nation has been successful in achieving several successive years of economic growth, low, single-digit inflation, and a relatively strong balance of payments.

Economic growth has resumed after a long period of decline in the 1980s and early 1990s, but it is important to ensure that this growth becomes sustainable. In this context, one of the key tasks facing the authorities is to create an environment favorable to economic diversification with employment creation and low inflation. Ingredients of such an environment include liberalized markets and an adequate infrastructure, especially the development of the tourism plant and the renewal of the export agriculture sector. To achieve sustainable growth there is a need to correct the remaining structural impediments, raise investment and further increase factor productivity. Sustained growth in the tourism and agriculture sectors and reform of the labor market would be important elements to reduce unemployment.

To ensure price and macro-economic stability, fiscal policy over the medium term must focus on implementing measures designed to achieve a positive overall fiscal result and a reduction in arrears. Emphasis should be placed both on enhancing revenue collection and on containing expenditure. In strengthening the revenue collection mechanisms, a review of the tax regime should be addressed with the view to enhancing efficiency and establishing a more competitive, transparent, and performance-based structure.

In this regard, we are in agreement with the recommendations of the technical assistance mission as outlined in paragraph 25 of the staff report, specifically the adoption of a VAT. We encourage the authorities to implement these proposals to reinforce their revenue collection. The implementation of a VAT would enhance the efficiency of tax administration, allow the authorities to eliminate several "nuisance" taxes, and create a simpler indirect tax structure. On the expenditure side, efforts should focus on a reduction of the wage bill as a percentage of GDP. In addition, a capital program designed to improve the social and economic infrastructure is very critical in the face of declining external assistance.

Grenada's competitiveness as a major tourist destination does not seem to have been affected by wage cost factors or changes in the real effective exchange rate. The country's membership in the currency union has supported the fixed exchange rate and prices. We support the authorities in their efforts, through the Eastern Caribbean Central Bank, to strengthen the banking sector with improvements in the institutional and regulatory banking frameworks, and enhanced bank supervision. These are steps in the right direction, since a sound financial system, with prudential regulations that are consistent with international standards, is a critical element in the move to create a more conducive environment for private sector activity. Given the rapid level of growth of the offshore financial market, supervision of this sector should be strengthened to insulate the domestic economy from the sector. The implementation of the Grenada International Financial Services Authority (GIFSA) to monitor the operations of the offshore companies is timely.

The Grenadian authorities have relied on external loans to finance a number of its projects, specifically the construction of the national stadium and the ministerial complex.

However, we are of the view that Grenada's investments may be more appropriately addressed in the context of a medium-term framework. This will serve as an indication of the authorities' macroeconomic agenda and provide a stronger basis for private sector participation given the greater transparency in the direction of policy. Staff's views on the desirability of a public sector investment program for Grenada will be welcomed. Additionally, there is a

need to accelerate the trade reforms, and to improve the regulatory and incentives framework to assist the private sector in its role as the engine of growth in the economy. Trade policy over the medium term should be guided by the need to achieve an adequate blend of continued liberalization and implementation of appropriate safeguard mechanisms.

Attempts at industry diversification have had some success. Ecotourism could be a promising new area for growth but, like many of its Caribbean neighbors, Grenada must come to terms with the dilemma posed by its fragile ecological system, and achieve an adequate balance between developing facilities for an expanded tourism market without destroying the very basis for the industry.

Despite Grenada's resource endowment, its social indicators are unfavorable. The country needs to maintain the momentum of its impressive growth rates to reduce poverty significantly. The reconstruction of core infrastructure, rebuilding institutional capacity, and civil service reform would help poverty reduction efforts. On this note, could staff say whether the micro-enterprise projects as administered through the Grenada Industrial Development Corporation have been successful in creating sustainable employment opportunities? We are also pleased to note in Mr. Bernes' buff, the decision by the authorities to prepare a PRSP. Finally, we wish the Grenadian authorities continued success.

Mr. Taylor and Mrs. Mañalac submitted the following statement:

Grenada's implementation of prudent macroeconomic policies and the reform efforts undertaken in the 90's have resulted in a marked improvement in the structure and performance of the economy. For the last four years, the economy has expanded at an average real growth of 5.7 percent, and has maintained low rates of inflation averaging 1.5 percent for the same period. Notwithstanding these positive developments, Grenada continues to be confronted with several challenges that need to be tackled if the objective of maintaining sustained growth, sufficient to reduce poverty and unemployment, is to be achieved.

In this connection, areas of particular concern relate to the sustainability of the fiscal position, the financial system and data generation and dissemination.

Fiscal Policy

It is encouraging that the authorities recognize the need to achieve fiscal consolidation over the medium term. The generation of sufficient

public sector savings will enable the authorities to fund their plans for social and infrastructure spending.

The authorities are quite confident that revenue targets will be achieved based on measures that have been, or are to be, introduced. To obtain a clearer picture of how and when these measures are to be implemented, a timetable would perhaps be useful in guiding the authorities towards their goal. Based on the level of development that has taken place over the years, the revaluation of properties is another potential source of revenue increase, as property tax assessments would be based on the new and expectedly higher valuation. Likewise, a review of tax concessions with a view to their phase out could strengthen revenue generation. Moreover, based on the summary table of tax system in the Statistical Appendix, such a phase out would eliminate the element of discretion given to the Cabinet in granting tax exemptions, thus improving governance and transparency. A final note on revenues - I agree that the reintroduction of a VAT needs to be studied thoroughly in order to avoid a repetition of the problems encountered in 1986 when this tax was first introduced.

Of equal importance with the need to increase revenues and improve revenue administration is the control of expenditure growth. The authorities would do well to limit the wage bill, which in 1999 made up almost 37 percent of total expenditure, and will continue to form 35 percent of expenditures this year. In this connection, the authorities' intention to discuss new proposals with the World Bank on the restructuring of the civil service is welcome. Likewise, the public sector spending review to be conducted by the World Bank would be a useful vehicle to improve efficiency and controls.

On a more specific issue, I note with concern the increase in lease payments by the government on several investment projects undertaken in 1999, in particular, two office complexes and the National Stadium. In last year's Article IV discussion, Directors expressed concern on the prioritization by the authorities of their investment projects. Looking forward, given the increasing costs to the authorities of these projects, could staff provide an estimate of the benefits accruing from these investments?

Financial System

I agree that the relatively heavy exposure of banks to consumer credits poses a potential source of problem in the financial system. Considering that loans to households constitute more than 50 percent of banks' total loans and advances (of which 38 percent were used to purchase house, land and durable consumer goods), the banking system is highly vulnerable to downturns in the economy. Recalling that the recent financial crisis arose in large part from these sorts of inefficiencies in the banking system, the authorities are urged to

closely monitor the quality of credits. In view of the current concern on the problem of money laundering, I welcome the authorities' efforts to review their existing legislation to ensure that the guidelines to banks on avoiding money laundering are regularly updated and enforced.

Data Generation and Dissemination

Effective and appropriate policy decisions can be made only if these are based on reliable and timely information. It is unfortunate that while the statistical base has improved in recent years, weaknesses remain in the generation of data, particularly those considered vital in the context of Grenada's current thrust in reform implementation, e.g., finances of public enterprises and agencies and wages. That said, the necessary action should be taken to address the deficiencies in compiling and disseminating economic statistics. We encourage the authorities to avail of external technical assistance, including from the Fund, in order to help facilitate the resolution of this issue.

Ms. Lundsager made the following statement:

Grenada must be one of our smallest members. Despite limited resources, the authorities have taken significant steps to address the many challenges they face. The priority to sustaining growth in order to assist in poverty reduction while maintaining macroeconomic stability is welcome.

Nonetheless, I am a bit concerned about the emphasis on attracting offshore businesses – Grenada was just recently included in a report by the OECD on harmful tax competition. The means that Grenada now has a year in which to cooperate with the OECD to avoid being put on the list of 'uncooperative tax havens' next year. At that time, OECD members will begin taking 'defensive measures' against tax havens.

I noted in the staff report and Mr. Bernes' statement that the authorities are improving supervision with the GIFSA and the recent passage of the Money Laundering Act. But to make all this effective takes a tremendous enforcement effort that demands significant resources. Grenada should certainly draw on all available sources of technical assistance, but TA cannot itself perform the enforcement function. Has the budget accommodated the need for increased enforcement?

It might be a more effective long-run strategy to focus less on attracting the off shore business and more on attracting direct investment in manufacturing (CBI), agriculture, and tourism.

Several Directors raised questions regarding the public investment program. I share those concerns regarding prioritization and future debt servicing and welcome staff comments. One question in particular relates to the role of the private sector – why is the Grenada Development Bank (30 percent) undertaking much of this, why isn't private sector financing viable?

I welcome Grenada's commitment to publish their report.

The staff representative from the Western Hemisphere Department, responding to questions and comments from Directors, made the following statement:

Mr. Portugal and Mr. Dhanpaul raised a question on the desirability of a public sector investment program, and its role in making the authorities' plans more transparent. The authorities' work on the public sector investment program is well advanced. At the last Caribbean Group meeting at the World Bank, a draft of the public sector investment program, extending through 2002, was presented by the authorities. That program devoted considerable attention to the two sectors that we also stressed in our discussions with the authorities. First, the program addresses the need to develop infrastructure and ensure that basic utilities and transportation facilities are improved. Second, the investment program outlines the authorities' intention to devote substantial resources to the social sectors, particularly health, education, and skills development. The investment program will be reviewed by donors over the next several months, and hopefully will form the basis of donors' discussions with the authorities on Grenada's development over the medium term.

As an aside, the authorities are anxious to improve their monitoring of the public sector investment program. As we note in our staff report, they expect the World Bank, later this year, to help them review public expenditures in general, including in the context of the investment program.

On the issue of micro enterprise projects, and their role in creating sustainable employment opportunities, our information is that this program has financed about 600 small firms. The employment in those firms is about four persons per firm, so it would appear that that program has created, or at least helped to sustain employment for about 2,000 people. The government's medium-term program, which was also presented to the Caribbean Group meeting, includes a commitment that this project will continue, and that resources to help small enterprises will be increased in the context of the 2001 budget.

Turning to the question of the authorities' lease payments, this has been an issue that has attracted the attention of Directors in previous meetings. Mr. Taylor and Ms. Mañalac asked about the benefits that might arise from these projects. The authorities see the yield from the stadium project in the broad context of youth development—the importance of providing adequate sports, recreation, and other facilities for the youth, while ensuring that Grenada has facilities that can attract

international sporting and other events. We know that one or two international sporting events have already taken place there, and although the stadium still needs some finishing work, it is clear that sports and recreational facilities for Grenadian youth are now at a much higher level than previously. As for the government office project, before construction of the complex, government offices were located in different rented accommodations and were of poor quality. The new complex allows for greater coordination among key government ministries, and allows civil servants to become more productive in a comfortable environment, while saving on the substantial rental bill that the government faced under the previous arrangements. The civil service is now much more coordinated and there is less inefficiency related to having different ministries dispersed around the capital.

On the two questions raised by Ms. Lundsager, relating to the resources needed by the financial services agency, the agency presents its budget every year to the Ministry of Finance. The additional resources required for its operations in 2001 will be accommodated within the budget, and our experience from this year has been that all of the budget requirements of the financial services agency were met by the government. There was a marked increase in staffing; the office facilities were upgraded; and the agency was computerized. There are also resources available for consultants and for the audit function to be performed by the private sector. Therefore, at this time, we have no concerns that the resource requirements of the financial services agency will not be met.

The Grenada Development Bank is being restructured, owing to a large accumulation of losses in recent years, especially from its tourism portfolio. As a result of this restructuring, the bank's role in financing private sector projects is not as significant as it used to be, and the bank will not play the lead role in private sector development in future. It may continue to finance very small micro enterprises, but the authorities consider that private sector investment should be financed more and more by private sector agencies and banks. We are already seeing significant participation by other large, regional private sector bodies in Grenada—there is considerable interest from Trinidadian and Jamaican investors, and we expect this will continue.

Mr. Bernes made the following concluding remarks:

First, let me thank the staff, and also those chairs that issued preliminary statements. Model B is designed to provide for even more substantive preliminary statements to facilitate a more focused discussion. Other chairs are only supposed to raise points which have not been covered. I assume that the absence of other comments is a compliment to the three chairs that issued the statements, and that Directors feel that everything has been covered. It is a model that I would encourage other chairs to consider as we move forward.

I think the staff has answered most of the questions that were raised. I would just make one point the OECD list that Ms. Lundsager raised. This is a list compiled by a regional grouping of countries which has no status within this organization. Moreover, there were problems in the composition of that list, and I can cite an example with one of my countries, Jamaica. The OECD list is not designed to outline countries that engage in unfair tax practices; it is instead a list which includes countries with low tax rates, where the OECD feels that there are inadequate provisions for consultation and exchanges of information. An example of how well the process has been developed is the case of Jamaica. The OECD had sent a letter to the Director of Taxation in Jamaica and, not receiving a response, put Jamaica on the list. Unfortunately, the person they sent the letter to had retired 10 years earlier. This exemplifies some of the methodological problems associated with the development of that list, and there are a number of similar examples I can cite from my constituents. That being said, it is important to note that the authorities, as Ms. Lundsager has noted, are taking action to strengthen supervision in the financial sector. The Eastern Caribbean Central Bank is also taking steps, and the ECCB and member countries have requested a Financial Sector Stability Assessment to review the adequacy of their regulatory and supervisory regime. This is an indication of the seriousness with which both Grenada and other member countries take these issues—they are calling upon multilateral institutions to provide a considered and careful assessment of the situation, as well as advice on how their procedures can be further strengthened.

With those comments, once again, I would just like to thank staff and the chairs for their interventions.

The Acting Chairman remarked that the results of the “model B” experimental procedures had been pleasing, and would be particularly useful for countries where, in the past, there had been a small number of speakers.

The Acting Chairman made the following summing up:

Directors agreed with the thrust of the staff appraisal. They commended the Grenadian authorities for pursuing policies that have helped to achieve an economic recovery, accompanied by a reduction in unemployment and low inflation. Directors observed, however, that despite these achievements and a recent upturn in per-capita incomes, rates of both unemployment and poverty remain high. They, therefore, welcomed the government’s decision to place poverty alleviation at the forefront of its economic program, and expressed support for the strategy that is based on sustaining economic growth and job creation through sound fiscal policies, increased private investment, a revitalization of agriculture and the rural economy, and reforms aimed at improving the efficiency of the public sector.

Directors noted that, in light of the currency union arrangement within the Eastern Caribbean Central Bank (ECCB), fiscal policy has a key role to

play in maintaining macroeconomic stability and generating resources to ensure adequate social services and safety nets for the poor. While they welcomed the recent increase in central government saving, Directors said that sustaining a sound fiscal position over the medium term would require continued efforts, including the introduction of a value-added tax and a strengthening of tax compliance. They recommended that measures on the expenditure side focus on limiting the growth of the wage bill, exercising tighter control over government procurement, and avoiding recourse to commercially-financed lease-to-own projects by the public sector.

Directors noted the favorable prospects for increased private investment in tourism, and observed that new investments in other sectors would depend on progress in further divestment of state-owned assets. They also noted that the public sector should not undertake projects that could better be left to the private sector. An adequately-trained work force also is essential, and Directors welcomed the authorities' commitment to provide increased budgetary resources this year for education, skills training, and computerization in schools. In the public sector, Directors encouraged the authorities to press forward with their plan to introduce a civil service pay system based more closely on performance. They also welcomed the authorities' efforts, hopefully with World Bank support, to restructure the civil service.

Directors encouraged the authorities to take steps to improve supervision of offshore banking and other financial transactions, and welcomed the establishment of the Grenada International Financial Services Authority. In particular, it is essential to ensure that the nature and scope of these activities, as well as Grenada's legal and regulatory frameworks, are consistent with international standards. Given the government's limited resources, Directors recommended that prompt approaches be made for technical assistance in these areas to international or regional organizations, bilateral donors, and the ECCB. Directors also expressed concern with the quality of information on the financing of the large current account deficits in recent years—particularly with regard to the substantial size of largely unidentified private capital inflows, and the difficulties experienced in reconciling debt stocks and flows. Directors urged the authorities to work promptly, in collaboration with the ECCB staff, to clarify the nature and origin of these capital inflows.

Directors observed that continued weaknesses in Grenada's statistical base adversely affect the authorities' ability to monitor and analyze macroeconomic developments, and to take timely action to maintain stability and growth. They recommended that the authorities seek technical assistance to improve the scope and timeliness of statistics, and to ensure that adequate resources are made available to the statistics office.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/00/65 (6/30/00) and EBM/00/66 (7/5/00).

2. PRGF TRUST AND PRGF-HIPC TRUST—RESERVE ACCOUNT—REVIEW

1. Pursuant to Decision No. 10286-(93/23) ESAF, the Fund has reviewed the adequacy of the Reserve Account of the PRGF Trust, and determines that amounts held in the account are sufficient to meet all obligations which could give rise to a payment from the Reserve Account to lenders to the Loan Account of the PRGF Trust in the six months from July 1 to December 31, 2000.

2. The next review provided under paragraph 1 of Decision No. 10286-(93/23) ESAF, shall take place by end-March 2001. This paragraph shall become effective when all lenders to the Loan Account of the PRGF Trust have consented to the change in the timing of the next review. (EBS/00/117, 6/23/00)

Decision No. 12227-(00/66) PRGF, adopted
June 30, 2000

3. PRGF-HIPC TRUST—AMENDMENT

The Instrument to establish the Poverty Reduction and Growth Facility Trust annexed to Decision No. 8759-(87/176) ESAF, as amended, shall be further amended as follows: in Section II, paragraph 1, subparagraph (d), "2001" shall be substituted for "2000," to read as follows: "(d) Commitments under three-year arrangements may be made during the period from January 1, 1988 to December 31, 2001." (EBS/00/117, 6/23/00)

Decision No. 12228-(00/66) PRGF, adopted
June 30, 2000

4. OVERDUE FINANCIAL OBLIGATIONS—MODALITIES OF GOLD PLEDGE FOR USE OF PRGF TRUST RESOURCES UNDER RIGHTS APPROACH—AMENDMENT

1. Decision No. 10286-(93/23) ESAF, February 22, 1993, shall be amended as follows: in paragraph 1, "by end-March and end-September" shall

be substituted for "shortly before June 30 and December 30," to read as follows:

"1. As long as loans from the Poverty Reduction and Growth Facility Trust (hereinafter the "PRGF Trust") to members for the financing of "rights" as defined by the Managing Director's Summing Up at EBM/90/97 of June 20, 1990 are outstanding, the Fund shall review the adequacy of the Reserve Account of the PRGF Trust (hereinafter the "Reserve Account") by end-March and end-September of each year."

2. This decision shall become effective when all lenders to the Loan Account of the PRGF Trust have consented to the amendment, or March 1, 2001, whichever is later. (EBS/00/117, 6/23/00)

Decision No. 12229-(00/66) PRGF, adopted
June 30, 2000

5. THE PHILIPPINES—STAND-BY ARRANGEMENT—EXTENSION OF PERIOD

Paragraph 1 of the Stand-By Arrangement for the Philippines (EBS/98/50, Sup. 1), as amended, shall be further amended by deleting the clause "June 30, 2000" and replacing it with the clause "July 31, 2000." (EBS/00/116, 6/23/00)

Decision No. 12230-(00/66), adopted
June 30, 2000

6. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 98/2 and 98/54 are approved.

APPROVAL: December 8, 2000

SHAIENDRA J. ANJARIA
Secretary