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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/106

3:00 p.m., July 2, 1990

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

Executive Directors	Alternate Executive Directors
G. K. Arora	
	C. Enoch
	D. Powell, Temporary
Dai Q.	Zhang Z.
T. C. Dawson	
	J. Prader
	L. B. Monyake
	M. J. Shaffrey, Temporary
E. V. Feldman	R. J. Lombardo
	A. Napky, Temporary
	J. Basiuk, Temporary
M. Finaish	
M. Fogelholm	
	O. Kabbaj
	S. Rouai, Temporary
	B. Goos
J. E. Ismael	T. Sirivedhin
A. Kafka	L. M. Piantini
	J.-F. Cirelli
Mawakani Samba	
	Z. Iqbal, Temporary
	M. Eran, Temporary
	S. Yoshikuni

J. W. Lang, Jr., Acting Secretary
D. J. de Vos, Assistant

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Also Present

IBRD: F. D. Levy, Economic Advisory Staff. African Department: G. E. Gondwe, Deputy Director; P. Dhonte, P. H. Mathieu, O. J. Nnanna. Asian Department: U. R. Gunjal, B. Nijathaworn, I. C. Leinert. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; C. Begashaw, E. Brau, B. Christiansen, J. H. Feldman, S. Kanesa-Thasan, G. R. Kincaid, A. Lopez-Claros, C. Puckatikom, J. P. Pujol. European Department: M. Russo, Director; M. Guitián; External Relations Department: V. R. Khanna. Fiscal Affairs Department: W. R. Mahler. IMF Institute: O. B. Makalou. Legal Department: W. E. Holder, Deputy General Counsel; H. Elizalde, A. O. Liuksila. Middle Eastern Department: E. B. Maciejewski. Research Department: J. A. Frenkel, Economic Counsellor; P. R. Menon. Secretary's Department: C. Brachet, Deputy Secretary; B. J. Owen. Treasurer's Department: C. A. Kenney, C. A. Hatch. Western Hemisphere Department: L. Duran-Downing, J. Fajgenbaum, P. Neuhaus. Office of the Managing Director: A. K. Sengupta, Special Advisor; E. A. Milne. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. A. Ahmed, J. M. Jones, K.-H. Kleine, M. J. Mojarrad; B. S. Newman. Assistants to Executive Directors: T. S. Allouba, G. Bindley-Taylor, C. Björklund, B. A. Christiansen, S. B. Creane, S. K. Fayyad, B. R. Fuleihan, S. Gurumurthi, L. Hubloue, K. Ichikawa, M. E. F. Jones, M. Mrakovcic, G. Serre, D. Sparkes, C. M. Towe, J. C. Westerweel.

1. REPORT BY MANAGING DIRECTOR

The Chairman said that he wished to comment on his recent discussions on Economic and Monetary Union (EMU) and German Economic, Monetary, and Social Union (GEMSU) with the President and Vice President of the Deutsche Bundesbank, Mr. Poehl and Mr. Schlesinger, and the Minister of Finance of the Federal Republic, Mr. Waigel. He had discussed EMU mainly with Mr. Poehl, and did not have particularly important news to report on that question; but he would note that the staff would produce a detailed paper in the area. He had been impressed by the momentum, and confidence in the further work, toward EMU.

He had held detailed discussions with Minister Waigel on GEMSU, including on its systemic consequences, the Chairman continued. He had emphasized the key conclusions of the recent Article IV consultation mission to the Federal Republic of Germany, namely, that GEMSU would proceed without severe disruptions if the authorities pursued their structural, fiscal, and monetary policy goals vigorously. Nevertheless, there were risks that policy might be diverted from that path over the next year and a half in response to concerns about high unemployment in East Germany and to investor reticence in making financial commitments, both of which could contribute to renewed westward migration and action by the authorities to stem those flows through provision of subsidies and various welfare measures.

He had therefore indicated that there should be much caution in economic policy and had insisted on three points, in particular, the Chairman stated. First, the Fund had identified substantial demands on the fiscal budget in the initial stages of GEMSU. The authorities had shared with the Fund their evaluation that the fiscal demands of GEMSU would amount to some 2 1/2-3 percentage points of GNP--over the next year and a half-- in excess of the normally expected fiscal deficit. With great clarity, the authorities had stated that those demands could be absorbed easily by the financial markets. The staff believed that that was indeed feasible, if events went smoothly. But, in view of market tensions and the global savings imbalance, the Fund had made the point strongly that every effort had to be made to restrain growth in government expenditure, especially through cutting subsidies, particularly those resulting from the artificial division of the country. He had reminded the authorities that they had an "incomplete agenda" in regard to the adjustment of subsidies in, for example, the agricultural, shipbuilding, steel, and coal sectors. To avoid further revenue measures, it was an opportune time to make a special effort to cut subsidies. He had emphasized strongly, moreover, that if containment of the fiscal deficit at the envisaged level was not possible through cutbacks in subsidies, it was the view of the Fund that measures such as indirect tax increases should not be ruled out as a measure of last resort. The authorities were of the view, even so, that fiscal pressure on interest rates could be avoided through efforts to contain or reduce subsidies.

Second, the Fund had no doubts about the commitment of the Bundesbank to price stability, even if the implementation of monetary policy became more difficult in the following months, the Chairman commented. He had, of course, encouraged the authorities to monitor credit policy in East Germany, so as to avoid the allocation of credit to enterprises whose financial soundness was questionable. He had been impressed by the optimism of the Bundesbank on price developments. The most recent inflation rate figures in Germany had been relatively good, and both Mr. Poehl and Mr. Schlesinger had said that they were reasonably reassured about inflation prospects for the rest of 1990.

A third point that he had made to the authorities had dealt with structural policy, and the critical importance of rapidly privatizing competitive enterprises in East Germany, prompt closing of enterprises with no viable futures, and restructuring of those with potential viability, the Chairman noted. He had suggested that particular care be taken to ensure that the new public trust fund that would finance virtually all industrial capital reconstruction in East Germany would be managed in such a manner as not to allow nonviable enterprises to remain in business through cross subsidization of weak enterprises by strong ones.

In response to those points, Minister Waigel had been extremely forthcoming and open to the Fund's views, while expressing substantial confidence that the objectives mentioned would be met, the Chairman indicated. He had provided some additional data to update the Article IV consultation report in preparation. Minister Waigel had also emphasized strongly that he wished to use the threat of increased taxes as a powerful instrument for keeping pressure on other Ministers to cut as many subsidies as possible. He had agreed with the Fund's views on privatization and the selectivity required in assessing the enterprises to be restructured vis-á-vis those to be closed.

In turn, the Chairman said, he had remarked that the economic situation seemed under good control, albeit there remained obviously many "questions", with much depending on the monetary side and the reaction of consumers, particularly their saving behavior. As noted by the officials of the Bundesbank in the immediate wake of the monetary unification, the preliminary indications of such behavior were extremely good. There had not been a sudden "rush" for liquidity in East Germany; instead, a portion of the resources available from the currency exchange had been deposited immediately into savings accounts. The authorities viewed that response as more than temporary, reflecting the need for investment in the following years, including in housing. They were well aware that many further decisions would need to be taken, but he and the staff were of the view that those decisions would be taken prudently and would not put too much pressure on the monetary side. He was grateful to Mr. Grosche and his authorities for having shared so much in the space of his short visit.

2. STRUCTURAL ADJUSTMENT FACILITY, ENHANCED STRUCTURAL ADJUSTMENT FACILITY, AND ESAF TRUST - REVIEW AND AMENDMENT; AND POLICY ORIENTATION AND BALANCE OF PAYMENTS OF ASSISTANCE OF AID AGENCIES

The Executive Directors resumed from EBM/90/105 their consideration of a staff paper reviewing the operations of the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) (EBS/90/106, 6/12/90; and Cor. 1, 6/29/90), together with staff papers on the attribution of payments for SAF and ESAF Trust loans under an enhanced structural adjustment arrangement (EBS/90/122, 6/29/90), a paper on the policy orientation and balance of payments assistance of bilateral and multilateral aid agencies (SM/89/252, 11/30/90), and an update of the latter paper (SM/90/120, 6/20/90; and Cor. 1, 7/27/90). They also had before them a background paper on the structural adjustment and enhanced structural adjustment facilities (EBS/90/107, 6/14/90).

Mr. Prader said that the paper submitted for the current review indicated a worrisome picture, which had improved only slightly in comparison with the previous review. There had been a mixed record of implementation of programs supported by the SAF and ESAF; insufficient progress toward balance of payments viability; continuing needs for longer-term Fund involvement and exceptional longer-term financing in many countries with programs; under financing in two thirds of the programs; and avoidance by members eligible for the enhanced version of the facility of recourse to that economically more appropriate facility, in favor of less monitoring under, and less adequate, SAF.

Within that picture, a contrast emerged between the performance of the two facilities that had been targeted at the poorest members of the Fund, Mr. Prader continued. Despite the limited experience so far, the staff clearly favored the ESAF as the better and more appropriate instrument, and suggested that preference be given to an increase in the use of programs supported by that facility at the expense of those under the SAF. The operational shortcomings of the latter, particularly the less strict and inadequate monitoring procedures in comparison with the enhanced version of the facility, as well as the economic results, seemed, on balance, to call for an expansion of enhanced structural adjustment arrangements and for a reduction of structural adjustment arrangements. His chair would tend to agree with that assessment.

Even so, the problems with the ESAF were also evident, Mr. Prader stated. First, despite the obvious economic advantages of that facility, its use had been disappointingly low, falling far short of the staff's projection. For instance, at the time of the previous review of the facilities, the staff had presented a forecast according to which it was expected that some 15 enhanced structural adjustment arrangements would be requested over the following few months. In the end, only five such arrangements were concluded in 1989. However, criticism of the failure of the ESAF to achieve a higher rate of commitments seemed to be, in large measure, self-inflicted because that outcome had, to some degree, not only been the result of the factors quoted by the staff, but also of an incomprehensible policy on its part of submitting overoptimistic forecasts in regard to potential requests for access to the facility.

Moreover, countries eligible for the ESAF seemed to prefer the SAF because of its lower conditionality, Mr. Prader remarked. It had been argued that the conditionality of the ESAF was excessive and unrealistic; that criticism should be taken seriously and be examined carefully. At the same time, the reluctance to undergo such conditionality could also be seen as a logical consequence of a strange situation whereby the Fund offered members the choice between two contradictory options. To some extent, the SAF did not function as a preparatory stage for the ESAF, but as a means of bypassing the latter. The coexistence of the two facilities with different degrees of conditionality and monitoring--but the same effect on mobilizing official resources--was bound to encourage countries to choose the politically easier option. The only effective solution to that problem would be the eventual merger of the two facilities.

There also seemed to be a problem with donors and the international financial institutions' perception of the ESAF, Mr. Prader observed. From the observation that the SAF was as effective as the enhanced version in mobilizing World Bank and donor financing, it could be that the indifference of donors or international financial institutions other than the Fund with respect to the two facilities resulted either from insufficient information about the differences between the two instruments, or from donors simply not sharing the Fund's positive assessment of the ESAF.

The Chairman commented that donors might also believe that the conditions of the ESAF were too harsh in some sense, and be content with other, less demanding Fund-supported programs.

Mr. Prader commented that, indeed, one specific reason for that phenomenon might well be that some donors and international financial institutions did not attach as much importance as the Fund did to the high conditionality associated with the ESAF. To reduce "evasion" of the ESAF and to raise its acceptance by eligible countries, it was obviously necessary not only to convince the potential recipients, but also the donors and international financial institutions, of the comparative advantage of that facility over the SAF.

The indifference of donors and international financial institutions was not only a serious image problem for the Fund, but it also showed that the ESAF had, to some extent, not succeeded in meeting certain high expectations at its establishment, namely, the expectation that it would help coordinate international aid efforts and strengthen adjustment policies, Mr. Prader added. The Board had to be very clear on that point, because the amount of money involved was substantial, as were the effects on the countries concerned.

He agreed that the cutoff date for approval of new enhanced structural adjustment arrangements should be extended by two years to November 1992, to allow a shift from structural adjustment to enhanced structural adjustment arrangements, Mr. Prader indicated. His chair would also support the proposal to leave unchanged the existing policies in the areas of access, access limits, and phasing of disbursements. The proposed two modifications, namely, the use of contingency provisions and fourth annual arrangements under the ESAF, were also acceptable, provided that the available resources of the ESAF would be sufficient to meet such additional demands.

In view of the current size of the ESAF, Mr. Prader considered, and particularly the need for additional interest subsidies, it would seem prudent--despite the low utilization of the facility--not to extend the list of eligible members before there was an inflow of new money from donors, possibly from those that had participated in the first funding round with relatively small contributions.

Mr. Goos said that he broadly agreed with the staff's views on the general policy issues discussed in its paper, including the concerns about performance under the SAF versus the ESAF facilities. In particular, he could associate himself with the concerns expressed by Mr. Yoshikuni and Mr. Enoch about the proposed extension of enhanced structural adjustment arrangements for a fourth year. Such an extension and, hence, the prospect for additional financing, might induce some members to slow their adjustment efforts and thereby delay the restoration of external viability. Given those moral hazard problems, his chair's preference would be to retain the three-year arrangement period. In any event, an extension should be provided only on the basis of appropriate safeguards, such as a satisfactory track record and substantial progress in adjustment under previous arrangement. Like Mr. Yoshikuni, however, he believed that it was unlikely that such safeguards could be enforced effectively.

In regard to the staff's second conclusion in the review paper, he was skeptical that the largely unsatisfactory performance of members with structural adjustment arrangements could be overcome merely by graduating them to the stricter monitoring procedures and conditionality requirements of the ESAF, Mr. Goos continued. His impression was that at the heart of the failure of many structural adjustment arrangements lay an insufficient commitment by, and perhaps, insufficient ability on the part of authorities to adjustment, as well as a preoccupation of the SAF with short-term growth at the expense of fundamental financial adjustment. To amplify the latter point, it was striking that all of the structural adjustment arrangements had been successful in terms of growth, but much less successful in terms of financial stabilization. That clearly cast doubts about the effectiveness of the facility, particularly the risk that it was resulting in short-term stabilization of growth only, without the basis for sustained improved performance.

Both of those weaknesses, namely, the insufficient commitment of authorities--or their inability to perform--and the somewhat lopsided orientation of structural adjustment arrangements toward growth could be dealt with effectively within structural adjustment arrangements by strengthening program design appropriately, and by limiting access to the facility to those members whose willingness and ability to adhere to the program targets had been established--albeit only through the implementation of convincing prior actions--Mr. Goos said. He therefore saw little justification for changing the guidelines applicable to the use of the SAF and ESAF, especially as a premature graduation of members from the former might risk compromising the conditionality and effectiveness of the latter. Even so, he could certainly endorse the proposed midyear consultation for structural adjustment arrangements, provided that such consultations and reports to the Board concentrated on the most critical policy areas, thereby limiting the additional work load of the staff.

He agreed with the third conclusion of the staff on retaining the current eligibility list of the facilities, while keeping it under continuing review, Mr. Goos indicated. Concerning the staff's fourth conclusion, he would be interested in a clarification of what was meant by "substantial progress towards balance of payments viability." He would have thought that enhanced structural adjustment arrangements should generally aim at restoring viability by the end of the three-year arrangement period, and that longer adjustment periods should only be envisaged in highly exceptional and well-defined cases, providing for no more than one to two additional years for adjustment.

He welcomed the intention of the staff to place stronger emphasis in program design on macroeconomic stabilization, price stability, and adequate levels of interest rates, Mr. Goos remarked. In that context, he was especially pleased by the thrust of the discussion in the staff paper on the role of the exchange rate, which he hoped would foreshadow the results of the forthcoming more comprehensive analysis of the Fund's policy advice in the exchange rate area. He still had considerable difficulties, however, in understanding the notion of "the underlying market-clearing rate" whose level was to be assessed against such indicators as parallel market exchange rates and developments in gross reserves. Considering that all of those indicators were influenced by the degree of financial constraint, the level of interest rates, and the policy mix pursued at any point in time, it should be clear that establishing "the" market-clearing rate was a difficult undertaking. He therefore believed that the appropriateness of the exchange rate should be established predominantly, if not exclusively, on the basis of considerations relating to external competitiveness.

In regard to the staff's fifth and sixth conclusions, he had considerable sympathy for its call for additional staff resources to enable the Fund to strengthen its program design and technical assistance, Mr. Goos commented. It might perhaps be more appropriate to consider those issues in a more general framework, which would include other areas of Fund activity as well, such as the Fund's activities in Eastern Europe. Such a framework would also allow a proper evaluation of the budgetary consequences for the Fund. There was a risk to the staff's reference to the need for increased staff resources--a need that he certainly agreed with--in the format of the review of the SAF and ESAF alone, instead of in a more appropriate general framework. That aside, he wondered to what extent the IMF Institute could adjust its curriculum to make a stronger contribution toward strengthening the technical and administrative capacity of members.

His chair could support the proposed augmentation of ESAF disbursements with the intent of meeting contingencies under enhanced structural adjustment arrangements, provided that additional financing would be made available within the total commitment for the three-year arrangement period, Mr. Goos stated. He could also accept the staff's eighth, ninth, and tenth conclusions.

His authorities had requested him to reserve his chair's position on the proposed extension of the commitment period for enhanced structural adjustment arrangements, Mr. Goos indicated. In fact, Germany would prefer to see a postponement of the adoption of that decision. He assured the Chairman that his authorities' attitude reflected formal reasons only, relating to the fact that they were still in the process of preparing the necessary steps that would allow them to extend the drawdown period under the ESAF lending agreement. As a further assurance, he would point out that Germany had supported, at the previous Interim Committee meeting, the rights approach, with the implication that it was committed to extending the lending agreement.

He generally endorsed the staff's views in the paper on the policy orientation and balance of payments assistance of bilateral and multilateral aid agencies, Mr. Goos continued. He had one concern, even so, that the proposed wider circulation of Fund documents to international organizations might compromise confidentiality if too liberal a procedure was adopted, thereby perhaps adversely affecting authorities' willingness to provide sensitive information for inclusion in staff papers. Such a result would tend to undermine the Fund's ability to provide a comprehensive assessment of economic developments, which was essential for its ability to formulate well-considered policy advice. The staff had in mind two safeguards that might alleviate those concerns, namely, the continuation of the procedure whereby the Executive Director concerned had to concur with the proposed transmittal of the paper, and that the paper should be cleared by the area departments. He was not sure what the latter would imply, wondering in particular whether it would include the possibility of deleting highly sensitive information. The Board often had explicit discussions on exchange rate policy, including recommendations to devalue a currency. Considering the wide circle of potential recipients of papers, he therefore wondered whether the authorities would continue to discuss freely their views on exchange rate policy, or whether they would agree to including such information in staff reports. Such reluctance would greatly complicate Directors' assessment of the appropriate course of action. If the clearance procedures adopted provided for the possibility of deleting such information prior to transmittal, they might alleviate the concern that the quality of staff papers would suffer. The staff could usefully comment on the issue. Finally, he could endorse the staff proposals on the attribution of payments under structural adjustment and enhanced structural adjustment arrangements.

The Chairman said that he would ask the staff to indicate whether it was possible to postpone the decision on the commitment period under the ESAF Trust Instrument.

Mr. Lombardo made the following statement:

> The staff has made clear the difficulties in fully assessing the record of programs supported by the SAF and ESAF. However, at this stage, despite the absence of clear quantitative evidence of their results, these facilities have contributed substantially toward the general redirection of policies in favor of market-oriented economies. Cautiously, the staff states that a full assessment of the contribution of Fund-supported programs always involves judgmental elements, including comparisons of the actual results of programs against possible outcomes that might have occurred in their absence. Nevertheless, the judgment of program outcomes is clear in regard to the two facilities under review. If the 33 low-income countries currently with programs under the SAF and ESAF had not taken any measures, their difficulties would have been worse at this stage, particularly in the current world environment in which dynamic changes toward market economies are under way. Of course, one can always make claims for better implementation, faster adjustment, stronger measures, and that applies to the programs supported by these two facilities as well. Even so, the outcome, at this stage, has been strongly positive. The experience of the only country in my constituency with a program supported by the ESAF, Bolivia, has clearly confirmed these general considerations.
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> The paper analyzing the difficulties that have emerged in the implementation of programs supported by the two facilities is invaluable. The discussions on exchange rate and trade policies deserve careful study. The staff emphasizes that "in those cases with satisfactory progress toward a strengthening of the balance of payments position (including export diversification), effective exchange rate and trade policies supported by financial restraint appear to have been a crucial factor." This short statement by the staff underlines the fundamental issues involved in these programs. Of course, the need for financial restraint is obvious. Exchange rate policy could provoke some discussion, in view of the reluctance shown by some Directors to rely excessively on the exchange rate as a main tool in programs. I agree with the staff that an

active role for exchange rate policy is very important in the cases supported by the two facilities, not only to correct relative prices, but also to facilitate a quick recovery of competitiveness.

The third aspect of programs supported by the SAF and ESAF is trade policies. The need for rapid liberalization of trade in the countries involved is clear; but this also calls for liberalization in world markets as well. The acknowledged importance of a positive outcome to the Uruguay Round emerges in this regard and, perhaps more importantly, in relation to low-income countries in particular.

In addition to the strength of programs, there is a further worrisome weakness. As stated by the staff, progress in structural policy areas has been slower than expected; the effects of structural changes on short-term economic outcomes have not been felt; and the main challenge of program design remains how to strengthen the record of implementation of structural measures. It is cause for concern that difficulties have been found not only on the side of the countries involved, but also on the side of the Fund.

If experience shows that the record of implementation has been stronger in the cases where policy efforts have concentrated on a narrowly selected set of priority measures, this is--no doubt--the way to continue. Sometimes, countries have so many structural problems that one can be tempted to correct all of them at once. But perhaps this would be the best means of doing nothing.

It is regrettable that the staff believes that an extension of the eligibility list to cover all countries that are IDA-eligible at present could strain the resources of the two facilities. While supporting the proposed decision, I think that it would be essential to keep this question under continuous review, as stated as well by the staff.

I can go along with the staff's reasoning regarding the cutoff date for the ESAF. Of course, a one-year extension of the cutoff date to November 1991 could help convey a strong signal of the need for prompt policy adjustments and would encourage members to move more quickly toward the adoption of more ambitious programs. However, as the survey made by the staff suggests, a two-year extension would increase the likelihood that most eligible members with protracted balance of payments problems could qualify for the facility.

I can support the proposed decisions.

Ms. Powell made the following statement:

I wish to commend the staff on its useful and comprehensive review of the structural adjustment and enhanced structural adjustment facilities. My authorities broadly agree with the conclusions and the proposed decisions.

As regards the cutoff date for commitments under the ESAF, I support the staff proposal to extend the date to November 30, 1992. This would allow ESAF resources to be utilized more fully, as well as provide a signal to members regarding the Fund's commitment to encourage medium-term structural adjustment and growth. In response to the staff's informal inquiry, my Canadian authorities have indicated their concurrence with the proposal to extend the drawdown period cutoff date.

My chair fully appreciates the difficulties involved in assessing the success of programs supported by the SAF and ESAF. While progress toward external viability has remained elusive, the evidence does suggest that such programs have contributed to faster growth, a redirection of policies toward market-oriented reforms, and a better economic environment than might otherwise have prevailed. On this basis, I wish to reaffirm my chair's support for the Fund's role in assisting growth-oriented policies and external adjustment in low-income countries through appropriate financing facilities.

Nonetheless, it is clear from the staff's analysis that progress toward noninflationary growth and external viability has been difficult to achieve in a number of cases. In this regard, I view with considerable concern the policy slippages and delays in the adoption of corrective measures in many programs under the SAF. As the staff's analysis makes clear, programs supported by that facility have, for example, failed to achieve their objectives in a number of cases because of insufficient fiscal adjustment. It is apparent, therefore, that a strengthening of program implementation and monitoring is necessary to ensure faster progress toward noninflationary growth and a sustainable external position. The less ambitious monitoring procedures under the SAF than the ESAF, the absence of performance criteria, and the lack of midterm reviews have significantly contributed to the weaker performance of such programs.

As the staff notes, the comparative success of programs supported by the ESAF reflects, to some degree, the fact that it is the strong performers that have made use of that facility, while the weaker performers have remained under the SAF. Clearly, this suggests that incentives are inappropriately skewed in favor of the latter. It is notable that, although structural adjustment arrangements require a lesser commitment to structural reform, they tend to catalyze the same resources from donors. I would suggest that the resulting adverse selection--where poor performers opt for the weaker conditions of a program supported by the SAF, while stronger performers opt for a program supported by the enhanced version of the facility--is unsatisfactory. By maintaining two facilities, the Fund gives a confusing signal regarding the acceptable speed of adjustment. While it may be argued that, in certain cases, structural adjustment arrangements can act as a useful prelude to more comprehensive programs, any such advantages are outweighed by the apparent difficulty of encouraging countries to accept the conditionality of the ESAF so long as the "softer" option of the SAF is available.

Accordingly, as this chair indicated during the past review in March 1989, consideration should be given to integrating the two facilities. This would be consistent with the commonality of purpose of the SAF and ESAF, and would help ensure that program design and monitoring would better suit the requirements for viable domestic and external balance in the medium term. Moreover, there is sufficient flexibility within the framework of the ESAF to allow for the different pace of adjustment that will be suitable for different countries. At a minimum, I would strongly support the staff's proposal on page 36 of the main paper to adopt midyear consultations under programs supported by the SAF, as well as continued efforts to encourage members to make use of the ESAF.

I would also agree that, where a program has gone off track, prior actions should be required before approval is given to a second or third annual arrangement under the SAF. Similarly, it would seem appropriate, as proposed by the staff, to take account under enhanced structural adjustment arrangements of the member's record of policy implementation and the strengthening of the program.

As regards the proposed amendment to the ESAF, permitting an accelerated access to committed resources in the event of adverse external contingencies, this chair continues to support the principle of including contingencies within Fund programs. Nonetheless, we have a number of reservations regarding the proposal. The staff's description of how such a contingency mechanism would be constructed is relatively imprecise; it is stated that this mechanism would share some of the characteristics of the compensatory and contingency financing facility (CCFF). One wonders whether it should differ much from that facility, albeit one of the complaints about the CCFF is its complexity. I am concerned that including provision for contingencies in a program supported by the ESAF will be at variance with the desire to simplify program design. I would also not like to see provision for contingencies lead to undue delay in necessary adjustments, particularly given the difficulty of assessing whether adverse external developments are, in fact, temporary and reversible.

As regards the issue of program design and the policy framework paper, I agree with the staff that appropriate macroeconomic policy measures should be encouraged. This is especially so with respect to strengthening fiscal policies, enhancing trade liberalization, and promoting suitable exchange and interest rate levels. I also fully support the conclusion that programs have tended to contain an excessive number of structural objectives. Such measures place a heavy administrative demand on authorities, thereby accelerating adjustment fatigue, while the staff is often placed in a position of being unable to adequately monitor program performance. Programs should be designed with a limited number of critical structural objectives for which relatively straightforward and quantifiable performance criteria or indicators can be defined.

I would also endorse the view that technical assistance, especially in the fiscal area, can play an important role. Countries should be encouraged to accept such assistance as early as possible, possibly prior to Board approval of a program, so that the results of such assistance can be quickly incorporated into programs. Clearly this, as well as the recommendation for closer collaboration with official and multilateral donors--with which we are also in agreement--will imply the need for more staff resources for country work and technical assistance.

With regard to the policy framework paper process, it would seem that there is now somewhat greater involvement of the country authorities in the preparation of these papers, which we welcome. I encourage the staff to continue with its efforts to ensure as full and direct involvement by the authorities as possible, as this will help to secure their commitment to the adjustment effort.

I also welcome the Fund's closer contacts with bilateral and multilateral aid agencies. A two-way exchange of views between the Fund/Bank and major bilateral and multilateral aid agencies can only be beneficial. The Fund should take advantage of donor expertise, as well as seek information on aid flows. Closer contact and coordination should be sought, particularly with local donor groups, and I support the staff suggestions along these lines.

In view of the desirability of promoting a greater exchange of information among interested parties, I agree that it would be useful to allow the release of a wider range of Fund documents. This should be done on the basis of the criteria of commonality of interest, reciprocity and, in particular, confidentiality.

To conclude, I can support the proposed decisions, including the proposed rule on attribution of payments. I agree with the staff's views on maintaining the lending rate at 0.5 percent and the current access policies. While I can accept some flexibility in phasing to allow for contingency provisions and also the possibility of extending enhanced structural adjustment arrangements in some cases by an additional year, these policies should be applied cautiously. There should be some presumption that they will be used in any particular case. I would not favor changing the list of eligible countries at this time, although this question should be kept under review.

Mr. Monyake said that he wished to express several concerns on behalf of his constituency. His chair had, in the past, expressed various concerns about Fund-supported adjustment programs, including the point that one could not in effect have a "sound mind if the body was not sound," which he hoped would apply to discussion of economic theory. The Fund, in fact, was expecting countries to apply sound economic principles in a world that was economically unsound, which created a difficult problem for those countries. Appropriate policies were, indeed, difficult to implement in an unsound world economy.

There seemed to be much discussion in general about adjustment--in effect, the adjustment of existing structures only, Mr. Monyake considered. For instance, the Fund advised commodity producers to increase their output of commodities and to devalue their currencies to obtain increased local currency. However, as he had emphasized in the past, a number of developing countries were in need of not just adjustment but structural reform, or restructuring of their economies. In that area, however, the design of Fund-supported adjustment programs had fallen short. In particular, his authorities were concerned that, despite comments to the contrary, Fund-designed programs tended to lack adequate emphasis on vital, self-sustaining growth toward the end of programs. The Fund talked about the need for growth-oriented measures, but more often than not, little growth was achieved. Indeed, the ultimate goal seemed to be more the attainment of external viability.

He therefore would challenge the staff to be more innovative, to pursue some needed "structural adjustment" in Fund policy prescriptions, so that programs would not simply be copybooks of a prototypical program but be geared to the internal--and external--environment of the particular countries in which they were expected to operate, Mr. Monyake said.

In response to a request by the Chairman for a further indication of what he had in mind by institutional structural adjustment, Mr. Monyake commented that his point was simply that Fund-designed programs, and the institution, were rigid. Regardless of the country and specific problems involved, the Fund invariably seemed to call for the same measures without variation, or without new approaches for different countries or situations. The Fund, more or less, operated solely by a "textbook." Programs should be fitted to the countries for which they were designed.

Mr. Monyake then made the following statement:

> The two facilities under review grew out of a recognition that a certain group within the Fund's membership face special problems that could not be tackled easily within the usual framework of Fund lending in support of adjustment programs. The facilities are now considered to be a useful channel for Fund assistance to low-income countries. At least three positive messages flow from the decisions to establish the SAF and ESAF. First, they draw attention to the need for the international community to provide concessional resources in support of the adjustment efforts of low-income countries already burdened by massive debt overhangs. Second, the Fund is obliged to continue to focus on means of improving the adjustment process in these countries, with a view to engendering sustained growth in a stable macroeconomic environment. Third, the Fund has the opportunity, in the context of the policy framework paper, to mobilize resources from the donor community in a concerted manner to help address the all-important question of poverty in low-income countries.
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> For sub-Saharan Africa, which contains most of the world's least developed countries, efforts to reduce poverty must remain paramount. The staff argues that "given the need to maintain appropriate policy focus, poverty measures should be narrowly aimed at cushioning the effects of carefully selected policy measures, and not generally at redressing the income distribution or poverty per se." My chair cannot accept this view as a general principle. Even if I accept that the Fund's mandate is limited in this regard, there is no need for the institution to even suggest that the overall issue of alleviating poverty could be sidestepped in a large number of member countries.
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> Besides, there is the serious question to face that the Fund plays a leading role in adjustment efforts of developing countries, many of which face widespread poverty. The World Bank has, in fact, suggested for sub-Saharan Africa that a frontal attack on poverty in all its manifestations must be a primary objective. Financial stability and medium-term balance of payments viability, and even growth, are not ends in themselves, but a means to an end--the alleviation of poverty. My authorities maintain that their adjustment efforts must proceed against this background. If the Fund is not to concern itself with the general question of poverty, then Directors should be clear about which institution should be concerned, and how the adjustment process should be

organized, because it cannot be separated from the general question of poverty alleviation and the need to transform members' economies.

My chair remains concerned that many eligible countries still have not had access to the SAF after four years of its existence. Only three arrangements under that facility were approved in 1989, bringing the total number to just over half of the eligible members. The approval rate for the ESAF also falls below expectations, with only 11 arrangements approved as of the end of April 1990. The reasons advanced by the staff for such use are that some countries need to establish a track record following policy slippages; other countries need to prepare the ground for more ambitious programs; and there is also the question of stricter conditionality. These may well be valid reasons. However, too much emphasis on ambitious program targets, or on past difficulties in observing performance criteria, or on tightening conditionality, might defeat the very purpose for establishing the two facilities as being special in some sense, by putting them out of the reach of a large part of the target group of countries.

Regarding the performance of countries under the SAF, the staff concludes that programs were generally successful in improving growth, but that progress has been slow in achieving external viability, and that some countries have experienced high rates of inflation. These can only be tentative conclusions, an observation that applies also to programs supported by the ESAF. I noted that the staff's conclusion about growth does not fit the pattern observed in a number of other studies using the same before/after methodology for evaluating the impact of Fund-supported adjustment programs. The most that one could conclude from several of those studies is that the impact on growth was ambiguous.

A recent article in Staff Papers (June 1990) on the macro effects of Fund-supported programs suggested that nonprogram determinants can bias the results from the before/after approach. It is likely that improved weather conditions have helped growth prospects in sub-Saharan Africa in recent years. Also, the unexpectedly sharp decline in prices for certain key primary commodities contributed to the difficult balance of payments situation of a number of countries. In fact, it was highly optimistic for the programs to have assumed in general that balance of payments viability could be achieved after only three years. One of the reasons for urging more concessionary debt relief and other special programs of financial assistance for sub-Saharan Africa is the recognition that there is a protracted balance of payments problem. For many countries in the region, achieving balance of payments viability in a period of three years would be possible only by restricting the definition of that concept. In the final analysis, the conclusions based on experience so far should be considered with caution, being mindful that the problems are of a long-term nature; we should resist the temptation to find quick results that might be misleading.

On program design, the staff makes two basic points. One point is that strong emphasis should be placed on fiscal adjustment to enhance domestic resource mobilization; the other point is that proper exchange rate and trade liberalization policies must be an integral part of programs. Few observers would argue with this perception, and fewer still would question the staff's explicit recognition of the need to improve institutional structures and of the positive role of technical assistance from the Fund and other sources. Nonetheless, questions can be raised about the suggestion that rapid adjustment is workable in all cases.

As for the fiscal situation, one should not get the impression that poor performance in this area always reflects lack of technical knowledge. Recently, I read that Africa has many more technical experts from abroad than it had at the time of independence, but the economic problems remain. Apart from sociopolitical issues in some cases, the low level of income is a major constraint to fiscal adjustment--an aspect of the adjustment problem that is especially relevant to sub-Saharan Africa, which has experienced a precipitous drop in per capita income in the 1980s. The staff paper did not fully reflect this concern. Fiscal problems in developing countries are also related to sharp declines in commodity prices. Hence, institutions like the Fund should be calling for stable and reasonable prices for the primary exports of developing countries to support policies aimed at mobilizing domestic resources.

With regard to exchange rate policy, the results have been mixed, and there is no clear evidence to suggest that ambitious adjustments in the exchange rate are helpful in all circumstances. In fact, the staff paper might have overemphasized the role of the exchange rate in promoting diversification, while downplaying its potential adverse effect on inflation and output in countries that depend on a few primary commodities, and on imports to satisfy a large portion of domestic demand. My chair looks forward to the paper on exchange rate policy in developing countries, to see what new light can be shed on the role of this measure in the adjustment process.

One of the surest means to smooth progress in the adjustment process is to have adequate financing from the international community, the commitment of the governments, and the support of their citizenry. I note that external financing fell below target in the overwhelming majority of the cases. The negative consequences of such shortfalls should have been given more attention in the staff paper, and means should be found to ensure timely disbursements of assistance that has been pledged. Regarding the need for domestic consensus over difficult reform measures, I agree with the staff that sufficient time should be allowed for such consensus to develop without it being misconstrued as a lack of political will. No government relishes implementing an economic program that has to be kept on track through the use of force; and the new "breeze" of democracy makes that option even less acceptable.

I concur with the view that fuller account should be taken of the limitations in countries' technical and administrative capacities to implement reforms--in other words, the capacity to adjust. This calls for the careful setting of priorities, which the staff recognizes. However, there seems to be a need for clarification when the staff, at the same time, argues for greater quantification in the analysis of structural matters and for more transparent and detailed plans of action from the initial phase to completion of reform in each specific area. These may be desirable; but are they practical? Besides the question of whether such fine-tuning is practical--and some developed countries have raised some concerns about this--there are problems with data limitations.

As to the question of the coverage of performance criteria, the staff has a point in suggesting that key structural actions should be covered where feasible. I would only caution that prudence be exercised when dealing with areas such as public enterprise reform and privatization and certain subsidies, so that programs are not stalled simply because of technicalities.

As a general point, my chair does not agree with the assertion that the availability of support under the SAF may have discouraged timely adoption of strong policies meriting support under the enhanced version of the facility; and it does not accept the suggestion to suffocate the SAF by not approving programs under it; nor is my chair prepared to deviate from the original orientation of that facility. It seems that the staff uses the very rationale for establishing the SAF to argue against it. As for the use of shadow programs in certain countries with structural adjustment arrangements prior to adopting programs supported by the ESAF, I only wish to note that shadow programs have not worked in most cases where they have been tried.

On access to the ESAF, my chair sees no reason for changing the current access guidelines. Back-loading of disbursements could make it difficult to carry out certain reforms, such as trade liberalization. The staff makes the point that access to the facility may need to be on the low side in those few cases with weak prospects for achieving external viability even with strong policy programs. My chair is concerned that a large number of sub-Saharan countries would fall into the category of "weak prospects," and that they would therefore receive less funding. It wishes to re-emphasize that three years are not a sufficiently long period to permit many countries in sub-Saharan Africa to achieve a viable balance of payments position consistent with self-propelling growth. If access is to be reduced, then the Fund must go further to suggest how the "slack" should be made up.

Concerning the cutoff date for the ESAF, my chair supports the view that it should be extended by two years, to end-November 1992. Regarding eligibility for that facility, it urges that flexibility be exercised, should certain other IDA-eligible countries find it necessary to use the facility.

I welcome the staff's discussion on possible contingency provisions under enhanced structural adjustment arrangements. However, the staff does not go far enough; the intention appears to be only to shift around a given amount of funding committed to the three-year period of the arrangement. The staff paper draws attention to the fact that many programs supported by the SAF and ESAF have faced external shocks of the type covered by the CCFF, and that built-in margins have not been sufficient in cases of major shocks. The point is also made that program adaptations to critical adverse developments have been complicated by inadequate financing. Against this background, the Fund needs to keep this matter open and go beyond the question of rephasing specified amounts for programs supported by the ESAF.

I appeal to donors to increase their subsidy contributions to enable lending under the ESAF to reach the target of SDR 6 billion.

My chair recognizes that official donors have placed increased emphasis on the adoption of appropriate macroeconomic policies in determining the size, mix, and disbursement of their concessional balance of payments support for developing countries. Indeed, many countries with strong and sustained adjustment programs have enjoyed increased assistance from official creditors. In this regard, most donor institutions have relied on the Fund and the World Bank to provide an assessment of macroeconomic and structural policies in recipient countries, and have linked their aid operations to Fund-supported programs. Under the circumstances, intensifying the collaboration between the Fund and these institutions would be in the mutual interest of the parties concerned. Donors could be assured that the recipient country was embarking on the right course, and the recipient country would be encouraged to take the necessary steps to reform, knowing that adequate financing was available to support their efforts.

In this regard, my chair supports the proposal that bilateral agencies and multilateral institutions providing substantial balance of payments support to member countries should have access to Fund documents on such countries, contingent on their satisfying the reciprocity and confidentiality criteria. It is also in general agreement with the modified transmittal procedures as specified in the updated staff paper, but with an amendment relating to the scope of Fund documents for transmittal. For instance, the Fund could provide a summary of its assessment of economic performance of the recipient countries, based on relevant staff reports as may be desired. The summary would be carefully prepared to meet the need of the donor institutions and to ensure as well the exclusion of details of staff appraisals and Board discussions of staff reports.

My chair welcomes the new facility for structural adjustment financing introduced by the EC Commission for the African, Caribbean, and the Pacific countries (ACP) under the Lomé Convention. It is pleased with the increase in the size of the Commission's assistance and the fact that the bulk will be provided in the form of quick-disbursing grants to support ACP countries' reform programs.

Mr. Shaffrey made the following statement:

As the papers currently before Directors clearly demonstrate, it is no minor task to undertake a review of the operations of programs supported by the SAF and ESAF. The staff's analysis is substantive in its detail, and raises a myriad of issues; but the Board must not lose sight of the ultimate objectives of these programs.

Consequently, the main focus of this review should be on how successful the programs supported by the facilities have been in fostering growth and achieving progress in external adjustment. On the basis of the current evidence, achieving higher rates of growth does not appear to have presented too much of a problem for many countries under the SAF and ESAF. Unfortunately, it would appear that, in many cases, it has been difficult to increase the contribution of the external sector to growth. For programs supported by the SAF, in particular, the evidence on external adjustment is far from reassuring, as progress has been slow in many cases--with the reserves target being observed in just over half of the programs, and revisions projecting the need for exceptional financing over longer periods than initially envisaged have not been unusual. While the experience with the attainment of external objectives has been more heartening under the ESAF, experience with that facility has been brief.

Directors should not let the relative success of the programs in achieving higher growth rates distract their attention from the vital importance of improving the external position over the life of a program.

While there can be merit in "sacrificing" the external position or the current account--with the expectation of a future payoff in terms of growth and the external position--this strategy is not applicable to the countries eligible for the facilities which are not in the position to choose to run sustainable deficits. Their first priority must be moving from dependence on exceptional financing to sustainable external positions; and the limited evidence of the relative success of cases under the ESAF in achieving progress on external adjustment suggests that it may not be a case of putting growth first, so much as a lack of preparedness to address fundamental problems, the consequences of which are well documented in the staff papers.

This brings me to the details of the issues before Directors, namely, program design, implementation, and monitoring, and the policy framework paper process--issues that largely determine the success of programs supported by the two facilities. Central to identifying "the way ahead" is to look at the reasons why, in the past, some countries failed to make progress in correcting their external position. While, for some countries, the answer lies in not having pursued their programs effectively, other countries have done this but have made less than satisfactory progress in attaining their ultimate objectives, with at least some of this failure attributable to inadequacies in program design.

Those countries that have failed to achieve satisfactory progress in their programs appear for the most part to be countries with programs under the SAF, subject to less stringent conditionality. In these circumstances, I agree with the staff's recommendations that monitoring should be enhanced for those programs under the SAF that are still considered appropriate; that the record of implementation under the facility should be a factor in considering access to the ESAF; and that a transition period from the one facility to the other--involving perhaps something akin to a shadow program--may well be a useful preparation for the more exacting terms of the ESAF.

That countries can implement Fund-supported programs satisfactorily without corresponding progress in meeting program objectives indicates clearly that, notwithstanding the effects of adverse exogenous factors, improvements need to be made in program design. This is clearly an area where progress can be made, but not without a considerable concentration of resources; and in this regard, I would endorse Mr. Goos's remarks that the question of resources should be addressed in terms of resource allocation throughout the Fund as a whole, and that Directors should not underestimate the complexity of the issues involved. The staff papers make a good case for giving program design a stronger emphasis on macroeconomic measures to promote domestic savings, particularly a strengthening of the fiscal position, and for focusing on a few critical structural measures--with preparation and formulation strengthened and an associated need for close collaboration with Bank staff along with other organizations, where necessary. In the interests of better program implementation and monitoring, this chair supports the aims of keeping structural criteria to a minimum, improving both their definition and specification, and enhancing both the role of policy framework papers and the involvement of the relevant authorities in their formulation. I also see some benefits from increased access to country reports by the multilateral agencies referred to in the staff paper on aid agencies, and I support the staff's recommendations in that paper.

My chair agrees with the extension of the cutoff period for two years and that the interest rate on ESAF resources should remain at 0.5 percent, at least for the time being, and it agrees with the proposed decision on attribution. My chair has an open mind on the suggestion for fourth annual arrangements under the ESAF. Where progress on the balance of payments is evident, and the need for further exceptional financing clearly identifiable and linked to a strong program, the suggestion for a fourth arrangement has merit. However, where lack of progress in external adjustment can be linked to an unsatisfactory record of implementation, I would be wary of any further commitment of resources. My chair also favors keeping the list of countries eligible for the two facilities unchanged.

Mr. Piantini made the following statement:

My chair generally agrees with some of the conclusions and proposed decisions of the staff, but wishes to make several comments.

In programs supported by the SAF and ESAF, large shortfalls in expected official financing were an important factor weakening their implementation. In two thirds of the programs under review, official financing fell short of the amount assured under the program. In half of the cases with significant financing shortfalls, the main reason for the shortfalls was disbursement delays by the World Bank, despite broadly satisfactory policy implementation.

In the area of aid disbursement, shortfalls between promised and delivered resources were also a problem. Four major variables are involved: the form of the aid; the timing of disbursements; the complexity of administrative systems between donor and recipient countries; and the strength and flexibility of coordination between these countries. There are difficulties in attempting to provide a general solution to this problem, given the fact that many of the reasons for a shortfall may be due to specific factors pertinent to the particular recipient country and its donor country or countries. Therefore, what is obvious is the greater need for donors, recipients, and Fund staff to become thoroughly familiar with the administrative, legal, and structural factors that relate to each aid disbursement package, so that potential areas of weakness or delay can be anticipated and contingencies prepared. A most practical suggestion seems to be one favoring identification, at the onset of a program, of the categories of expenditure that would be adjusted in the event that disbursement aid flows are less than originally programmed. In this respect, I associate myself with Mr. Finaish's point regarding balance of payments assistance. With respect to the SAF and ESAF, greater coordination between the Fund and the Bank may alleviate the problem of resource shortfalls.

In many of the programs supported by the facilities being reviewed, failures to meet structural benchmarks were due mainly to the administrative inability of the country to design and carry out structural reforms in a timely fashion, leading to disbursement delays. Thus, to strengthen the authorities' administrative capacity to handle the necessary tasks, technical assistance from international organizations and official donors must be greatly enhanced within the policy framework paper process. The staff's proposal to narrow the scope of structural measures to enhance their effectiveness is therefore well considered. With respect to aid flows from donors, I note also the suggestion by donors for closer and more direct channels of communication with the Fund, particularly with respect to the process of formulating policy framework papers. My chair envisages a process whereby the recipient country, donors, and Fund staff will all contribute to the formulation and implementation of adjustment programs, resulting thereby in more effective timing and distribution of a greater volume of resources. Obviously, for this to transpire, there must be greater input by donors into the process of formulating policy framework papers than at present.

It is precisely because of this fact that some caution is required in the process of cooperation, which must never be allowed to become or seem to become collusion. Recipient governments, donors, and the Fund have different if not conflicting agendas in many areas, but particularly those of economic and social concern. The room for misunderstanding and misinterpretation of intent is not only substantial, but may also undermine the benefits that this process of cooperation is intended to produce. Nor must closer cooperation between the entities mentioned lead to delays in approval or disbursement of assistance.

Another matter that arises out of the issue of cooperation is the circulation of staff reports and other Fund papers. This is a very sensitive matter in which one should try to balance the recipients' need for confidentiality against the donors' need for information. In this context, I agree with the staff's criteria for access to Fund papers and the suggested scope of transmission. However, I firmly believe that the Fund's role in the dissemination of information to the relevant donor agencies must continue to be based on official authorization from the recipient countries through their appointed or elected Executive Director. The content of the information and the limitations of distribution should be worked out between individual recipient countries and their donors.

I agree that midterm consultations between the staff and the authorities under structural adjustment arrangements could be appropriate in assisting the former in undertaking structural reforms--where the staff has expertise in the areas concerned. I do not see how countries could improve their track record by replacing structural adjustment arrangements with shadow programs. The idea that the Fund's role is to give advice, not financial assistance, is erroneous.

The staff's suggestion to reduce access under the ESAF for countries with weak prospects of achieving external viability--even under a strong policy program--is discouraging. The Fund must be prepared to run risks. My chair is also disheartened by the staff's ambivalence with respect to linking conditionality to aid disbursements. Such a linkage can prove counterproductive, especially where aid flows are linked to capital rehabilitation and/or various forms of poverty alleviation. The disruption of such flows would not be in the interest of either the recipient or the donor. Given the importance of noneconomic factors in decisions on aid disbursement, the Fund should resist the temptation to extend macroeconomic conditionality into the area of aid flows.

To protect programs under the ESAF from adverse temporary external shocks, I support the augmentation of semiannual disbursements to meet external contingencies. Thus, my chair agrees with the proposed amendment to the ESAF Trust instrument, but is surprised that the same principle is not applied to the SAF.

I also support the proposal that the interest rate of the ESAF remain at its current level, as well as the extension of a fourth annual arrangement under that facility, where the expectation of achieving balance of payments viability would be justified. In this regard, I support Mr. Mawakani's remarks that this extension should be accompanied by an augmentation of access. In addition, the proposed extension of the current cutoff date of the ESAF by two additional years seems appropriate.

I do not see any reason to change the regulations on the administration of the SAF by imposing restrictions that would currently determine the attribution of payments under SAF and ESAF loans.

Finally, my chair wishes to congratulate the staff on its efforts in mobilizing external resources to assist in the financing of programs for various member states. Given the complexity of development issues, the continuation of the debt crisis, and the tardiness of commercial resource flows, it would seem that greater coordination between official aid agencies and the Fund will have an increasingly greater role to play in resource transfers and policy development. I therefore welcome attempts to discuss the major issues of possible impediments to better coordination, and hope that these discussions provide the basis for improved coordination in the future.

Mr. Fogelholm made the following statement:

I welcome this review of the operations of the SAF and ESAF and the wealth of analysis and information it provides for the Board's future work in this area. My authorities are in broad agreement with the staff's conclusions and its justifications, as presented in the paper. Inter alia, they support the proposal to extend the cutoff date of the ESAF to November 30, 1992 with a corresponding extension of the drawdown periods. They consider the future use of resources under that facility in the implementation of the rights approach to be an important reason for this extension. My chair can also agree with the proposals to conduct the next review not later than July 31, 1991 and to maintain the group of countries eligible for the facilities unchanged for the time being.

Furthermore, although there are some good arguments against extending ESAF arrangements by one year, my chair can go along with the proposal if such an extension can be made within the proposed cutoff date, and provided, of course, that the underlying economic program is sufficiently strong and has a reasonable chance of being successfully implemented. Moreover, the staff proposal to modify the regulations of the SAF to allow disbursements of Special Disbursement Account (SDA) resources in ESAF arrangements beyond the initial three-year commitment period of the SAF arrangement meets with our approval. My chair can also support the proposed decision regarding the attribution of payments under SAF and ESAF Trust loans.

Despite the fact that programs supported by the ESAF do not currently seem to be in great demand, my authorities believe that the Fund should seek additional contributions to meet the target for the ESAF Trust of $6 billion. In agreeing to this, they are not implying that more resources will be forthcoming from the Nordic countries; instead, they consider that the Fund's efforts to raise additional financial support for the ESAF should be concentrated primarily on creditor countries with relatively modest contributions to date and/or low levels of official development assistance relative to GDP.

With regard to the proposals to better protect programs under the ESAF against adverse exogenous shocks, this chair has previously expressed some doubts about expanding the use of the resources of that facility for that purpose. Nevertheless, we could support the staff's suggestion, on the conditions that caution is exercised in its application and that policies are strengthened appropriately to put the program firmly back on track. The principle of symmetry should also be introduced.

Regarding the design of the structural policy content of programs under the two facilities, my chair endorses the staff's view that the focus should be on a few critical, and well-defined, structural measures. In this context, we underscore the necessity of additional, adequate, and timely technical assistance in supporting the authorities' efforts to formulate key structural policies. Needless to say, close collaboration with the World Bank is essential in this work.

My authorities feel strongly that ways to mitigate adverse effects of economic adjustment on the poorer segments of the population should be considered--as a matter of course--within the framework of programs supported by the two facilities. The Fund, and the World Bank, should also routinely inform the authorities of different policy options, and their probable effects on the allocation of income and resources.

Concerning the monitoring process of programs supported by the ESAF, my authorities have expressed their dissatisfaction with the tendency to hold midterm reviews of enhanced structural adjustment arrangements fairly close to the date of approval of the arrangement, instead of approximately midway through the arrangement period. Consequently, in order not to lose momentum in the adjustment and monitoring process, a more balanced approach to benchmark reviews would be desirable, despite any requirement for and actual implementation of prior actions, which in themselves are warranted in most instances.

This chair believes that enhanced structural adjustment arrangements are, generally speaking, more appropriate than structural adjustment arrangements for most eligible member countries formulating and implementing economic reforms. Consequently, my authorities wish to see the resources of the ESAF used more often--of course, in compliance with the agreed guidelines--and emphasize that all parties involved should make efforts to this end.

Thus, the question to be asked is whether it is really advisable to continue with the SAF. The staff report clearly indicates--based on the evidence available so far--that overall success under the ESAF has been superior to that under the SAF, and that some countries may have preferred requesting structural adjustment arrangements to enhanced structural adjustment arrangements probably because of the less ambitious conditionality and monitoring requirements of the former.

The staff, supported by a number of Directors, justifies the continuation of the SAF by noting that there are still members that need a more phased approach and that the facility helps to prepare the ground for future, more ambitious structural policy measures. This may all be true, and certainly in many cases there is a need to establish a good track record for a later adoption of a stronger program. But, in any event, the basic choice is between less or more adjustment and structural reform, and the results of the staff paper show which should be preferred. Furthermore, there seems to be a general current tendency in program design to move toward more rapid adjustment, supplemented by appropriate technical assistance than a more gradual approach. We witness this in particular in Eastern Europe and in Latin America. For a more ambitious adjustment, the ESAF--with its stricter conditionality and monitoring--is clearly better suited. If, however, the SAF is to be continued as a separate facility, it should be limited to a few exceptional cases and be more closely monitored than it is at present.

The staff paper on the policy orientation and balance of payments assistance of bilateral and multilateral aid agencies is also welcome, as it broadens Directors' knowledge of an area largely undocumented by the Fund to date. My authorities find the staff's proposals in this area appropriate, and they believe that there is both need and scope for increasing the understanding and exchange of information between the Fund and the aid agencies on these issues.

From an operational aspect, the Fund's primary need is, of course, to receive reliable information on expected aid flows, and generally on expected balance of payments support. Bilateral donors have special knowledge and experience that could be tapped and utilized in program design. The aid agencies on their part could benefit from the macroeconomic analysis undertaken by the Fund, and use this as a framework for their support in recipient countries. This has already taken place partially within the policy framework paper process, but this link could undoubtedly be further strengthened. A continuous flow of information and exchange of views is also the only means of preventing possible misunderstandings about the Fund's work and involvement in developing countries.

It is clear from the staff papers that the need for technical assistance in formulating and monitoring adjustment programs is huge, particularly in the least developed countries. In this field, as well, cooperation with bilateral donors can turn out to be extremely fruitful.

Mr. Dawson made the following statement:

The staff papers demonstrate that the SAF and ESAF can be effective instruments in facilitating growth-oriented reform in the poorest countries. However, success depends on early, full, and effective implementation, as well as a bit of good luck in some cases. Under these circumstances, I am concerned about the lack of utilization of these facilities, and particularly the absence of progression from the SAF to the ESAF. My chair has always viewed the two as a continuum, and therefore regrets that some countries have delayed needed reform measures and not taken full advantage of the process.

Some of the problems highlighted by the staff can be addressed by improving program design while maintaining the basic structure of the two facilities. As the staff papers point out, sound financial policies, both monetary and fiscal, are essential prerequisites for sustained growth and balance of payments adjustment and must be an integral part of all programs supported by the facilities. However, macropolicies must be complemented by structural reform. This is basically the raison d'être of both facilities.

The structural reform process will inevitably take longer to develop and to put in place than monetary and fiscal policies, although it will be important that they proceed in tandem if the synergism necessary for maximum effectiveness is to be achieved. It would be desirable to have the technical studies on possible structural reforms completed prior to the start of a program supported by the SAF, and not later than the initial year of the program, which would complement the other measures under the program. The specific reforms suggested by these reports could begin to be implemented in the first year with follow-up actions adopted in the second and third year of programs supported by the SAF.

I appreciate the staff's desire to narrow each program's focus to the most critical structural reforms that support sound financial policies, but I caution that this should not send a false signal that the Fund is no longer as interested as it was in other structural reforms. The Fund should neither lose sight of the interrelationship between macroeconomic policy steps needed for short-term adjustment and the many complementary structural reform steps necessary for longer-term sustained adjustment. For example, I strongly echo the staff suggestion that there should be an early and strong emphasis on mobilizing national savings through positive real interest rates. But the monetary policy measures must be backed up by structural steps, leading to financial market liberalization, to have a lasting impact.

In a similar manner, trade liberalization measures should be complemented by exchange rate reform. In this regard, I support the staff's conclusions that appropriate exchange rate adjustments can be an important part of sound reform programs in most developing countries, particularly in situations where real wage flexibility is limited. However, a flexible exchange rate is not a substitute for sound financial and structural reform policies. Instead, I consider it a necessary complement in situations where financial resource constraints would place an excessive adjustment burden on domestic growth and thereby undermine the essential public support and sound investment climate necessary for successful reform.

I appreciate the role that Fund and Bank technical assistance can play in program design; but we should be careful that technical studies do not substitute for sound macropolicy actions or overload administrative capacity. I support more technical assistance, particularly assistance that could enhance administrative capacity; but the number of technical experts that can be provided is unfortunately smaller than the demand. This might be an area where bilateral donors might play a greater role.

Monitoring policy implementation is crucial to a successful program outcome. I agree on the need for improved measures to assess progress on structural reforms, such as greater quantification of structural areas and better monitoring and enhanced transparency of structural reforms. In particular, I suggest that greater precision and multipart timetables on proposed structural reforms should be incorporated in programs at an early stage. I also support the staff suggestion of informal midyear consultations for structural adjustment arrangements. Improved monitoring should also be complemented by ensuring that each annual arrangement provide catch-up and follow-up measures to maintain the process of progression through programs supported by the SAF into ones supported by the enhanced version of the facility.

A program supported by the ESAF makes little sense if there is little progress under a preceding program supported by the SAF. Therefore, I believe that a successful track record should be an essential criterion in assessing whether a country should graduate from the SAF to the ESAF. In cases where the issue is open to some question, prior actions should be included in the program supported by the ESAF.

My chair continues to believe that the policy framework process provides a useful tool for strengthening collaboration between the borrower, international financial institutions, and bilateral donors. It is for this reason that I continue to believe that the policy framework papers should be developed for all countries using Fund resources. I welcome the staff's proposals to provide for wider circulation of policy framework papers as a means of informing all relevant parties of the broad goals and objectives of the program, the specific areas for action over the medium term, and the need for technical and financial assistance. However, it is incumbent on the Fund and the World Bank to ensure that the expectations of financial assistance from donors are realistic and reflect the most recent information. This will require closer contacts with the aid agencies actively involved in particular countries. At the same time, donors should seek to provide as much flexibility as possible on the timing and content of their aid consistent with their legislative constraints. However, the magnitude and timing of aid disbursements will inevitably reflect a high degree of uncertainty, given the different criteria that donors apply and the political realities under which they operate. In these circumstances, programs must be sufficiently flexible to take account of changing circumstances.

With regard to the specific operational issues raised by the staff, I have only a few observations to make. Access to the ESAF should be based on demonstration of a strong track record, either under a structural adjustment arrangement or another Fund arrangement. The front-loading of reform measures may be required, particularly for those countries where there are doubts about the record of performance. I support the two-year extension for new arrangements to 1992, and urge eligible countries to take advantage of this window of opportunity while it is still open. I recognize that structural reforms can take time to implement but am concerned that adding a fourth year to enhanced structural adjustment arrangements could delay the reform process. In any event, given the few cases supported by enhanced structural adjustment arrangements so far, it is somewhat premature to consider an extension at this time.

I appreciate the staff's concerns that the expansion of the eligibility list for the ESAF could strain the resources available. However, given the limited use of SAF and ESAF resources to date, it would be regrettable to allow these invaluable resources to go to waste when there may be other IDA-eligible countries prepared to undertake the necessary comprehensive reform programs, and which could benefit greatly from concessional financial support. Therefore, the question of eligibility should be kept under review.

As indicated during the discussion on the CCFF, my chair supports the contingency provisions for the ESAF and considers the staff proposals to be a reasonable approach. I also agree that there is no need to change the access limits for the ESAF at this time. I support the proposal to maintain the 0.5 percent concessional interest rate, although it will have to be kept under review in light of future market conditions and the ability to raise the required subsidy amounts. In this context, I am pleased to announce that the United States has completed the legislative and administrative arrangements for its contribution to the Subsidy Account, and the initial disbursement of its $140 million contribution has been made. The Administration is also seeking additional $10 million in resources for the Subsidy Account in order to meet its original commitment.

I support the proposed decision on the attribution of SAF and ESAF repurchases, which will enable the Fund to apply the full range of remedial actions in the event that a member does not fulfill its obligations under the ESAF, including the rights accumulation program where Fund gold might be at risk.

Mr. Arora made the following statement:

I welcome this review of the operations of the SAF and ESAF. If one compares the current review with the one that took place in 1989 one will see little change. This should not surprise Directors. The inherent complexities of the adjustment process in low-income countries should have prepared the Board to expect the kind of outcome that is in fact presented in the staff papers.

I detect a note of slight disappointment in the staff papers regarding the experience under the SAF, and am somewhat surprised by this undue note of caution. The Fund is like a doctor who expects his patient to recover in a dramatic fashion and is thus keen to take the patient's temperature every hour or so, in the hope that the "fever" will show a decisive downward trend. When that does not happen, for reasons that should be obvious to the "doctor," he feels bad and is inclined to blame the thermometer itself in his darker moments. Thus, the SAF has been subject somewhat to criticism because it is perceived as being weak.

There is nothing wrong with the SAF. If the "patient" has not been able to get the prescribed nourishment because of shortfalls in external financing, one should not then blame the instrument. Similarly, if there has been an adverse movement in the terms of trade--larger than allowed for--one really cannot reverse one's views of the SAF. Of course, one can recite the litany of woes in terms of performance: inflation performance has been less than satisfactory; progress toward external viability continues to be slow; structural reform, particularly fiscal reforms, has run into all manner of difficulties; the policy framework paper process is not as effective as it should be; and greater consideration among aid agencies continues to be sluggish. These are facts of life.

However, if one looked only at the liabilities side of a balance sheet, one would get a one-sided picture. Directors must also look at the asset side. My view is that these are not "nonperforming assets." Real GDP growth in countries under the SAF has been good; as the staff points out, growth was faster during the program years in the majority of cases than in the preceding period. There was also a positive per capita income growth rate in most countries, reversing a declining trend in such income growth--a most welcome development to those who seek evidence of successful growth-oriented adjustment programs. I appreciate the caveats mentioned by the staff, particularly on page 4 of EBS/90/107, where the investment side of performance has been referred to. What is important in this context is that the resumption of the growth process will create an atmosphere of confidence in tackling the difficult problems that lie ahead.

What I find most reassuring is that governments and influential social groups--which play a large part in policymaking--have come to accept the inevitability of change. There is now an acceptance that the former consensus over the basic framework of development has to give way to something different, focused primarily on efficiency in resource allocation. This change in view is by no means an insignificant event. In general, there is a tendency to underrate the role of crises in changing perceptions, outlooks, and ideas. With regard to the current change in outlook, the contribution of the Fund staff through its professional competence and dedicated efforts has been significant. There is now a systematic beginning of a trend toward establishing sound policies and appropriate institutional structures, and changes in existing structures. This is the most positive outcome of the programs supported by the SAF, and it is one that will have an enduring quality.

I also find welcome the recognition by the staff of institutional factors, which received must less attention in the past. I do not need to re-emphasize such factors; suffice it to say that lack of strong data bases, inadequate technical and administrative capabilities, and, above all, social and political legitimacy for the preferred policy options compared to those exercised so far constitute formidable barriers. Not to take those factors into account in evaluating the experience so far will be a mistake. In my view, the countries with structural adjustment arrangements are going in the right direction or are on the right track, even though one would think that, for instance, the degree of confidence attached by the staff to the exchange rate policy instrument is not borne out by actual experience. Mr. Iqbal and Mr. Finaish have made this point forcefully. There are serious theoretical questions regarding exchange rate policy that the staff itself has mentioned on page 25 of EBS/90/107, and one therefore has to be cautious in what one recommends. However, the broad thrust of my argument is that the countries under the SAF and ESAF are proceeding in the right direction, but there should be no question in anyone's mind that the road to recovery and sustained growth will be long and will require patience and flexibility.

A little historical background may put things in perspective. In the post-World War II period, the low-income countries that are currently regarded as successful examples of market-oriented systems owe their success not to the standard prescriptions of adjustment, but to decisive state intervention in regard to the mobilization and use of resources. What Directors therefore have to look for is not a formula in its pristine purity, but an approach that could work in moving societies away from existing distortions and inefficiencies--toward much more efficient use of resources, and, thereby, toward growth. In this context, the importance of institutional change, as recognized by the staff, comes as a breath of fresh air.

I wish only to highlight one other aspect of the adjustment process. In discussing the level of gross reserves accumulated under programs supported by the ESAF, the staff has pointed out that greater aid disbursements were generally not correlated with higher reserves, in part because aid disbursements were linked to imports. This aspect of aid policy needs to be reviewed, because this type of aid, in many instances--although well intentioned--does not always fit in with the medium- and long-term strategy of growth. "Something gets built somewhere, often in the middle of nowhere, and then sits there like a decaying monument." The philosophy of aid has to be aligned with the real requirements of these countries for attaining external balance.

In the light of the above, I find myself without any sympathy for the recommendation on page 27 of EBS/90/106 "that access under ESAF should be restricted in those few cases with weak prospects for achieving external viability even with a strong policy program." I find this recommendation unacceptable. If a country is making every effort to adjust along lines suggested by the Fund, and has a strong program, the presumption should be that the Fund will go out of its way to help the country to surmount its external constraint. The Fund should not tell the outside world that it does not think that the country has any chance--with the institution, in effect, taking no risks but inviting others to assume those risks. This is the surest means of "asking" donor countries and other creditors not to commit their resources, and is thus not a responsible position for the Fund to take.

I can support the proposals contained in paragraphs 1-10 on pages 35-37 of EBS/90/106, subject to my comments on the ESAF. I wish to reiterate that I do not consider the SAF to be, in some sense, equivalent to "bad money driving out good." The facility is good money, only we have not recognized it as such. If the Fund wishes to hold more consultations, midterm or any other kind, it may usefully do so; my only concern is that the resulting strains on staff resources may prove difficult to handle. However, the staff should please not institute more consultations because it does not think well of the SAF.

Mr. Rouai made the following statement:

Since the past review of the operations of the SAF and ESAF in March 1989, two important events have taken place and have rightly diverted the immediate attention of the Fund and the international financial community. First, the debt strategy for the heavily indebted middle-income countries was strengthened, and debt reduction mechanisms were introduced and adopted for the first deserving cases. Second, the political events that took place in Eastern Europe and subsequent moves by most of the countries in the region to market mechanisms were forcefully supported by the Fund. My chair has encouraged these efforts by the Fund and still believes that the Fund's role in helping the whole membership should be strengthened and tailored to the particular circumstances of each group of countries.

Against this background, the current review of Fund facilities in support of the adjustment efforts of low-income countries takes place at an appropriate moment. The review will be helpful in assessing the continued difficulties of these countries and, more importantly, in reaffirming the point that the implementation of, and adherence to, genuine adjustment programs will continue to be backed by adequate financial support from the Fund and the international financial community.

The results of the two facilities' operations were relatively mixed. On the one hand, after four years of activity, the SAF could be considered as comparatively successful in generating the interest of eligible countries. In fact, out of the 60 eligible members, 32 countries--representing about two thirds of the total quotas of this group--adopted structural adjustment arrangements. On the other hand, recourse to the ESAF was limited, particularly if one considers that only 11 arrangements are currently in place, including 10 representing previous structural adjustment arrangements. In addition, the pace of approval of new arrangements under both of the facilities is slowing, and is not expected to pick up in the near future.

The experience with programs supported by the SAF and ESAF also indicates mixed results. For arrangements under the latter facility, the overall results appear to be encouraging, although the staff rightly points out that the majority of countries under such arrangements had gained good track records under previous structural adjustment arrangements. For the SAF, the results are encouraging in the area of growth, but disappointing with regard to inflation and the attainment of external viability.

The staff enumerates some of the factors behind the relative attractiveness of the SAF to member countries. These factors are considered also to be at the root of the mixed results achieved under this facility. The preference for the SAF seems to reflect the relatively better operational flexibility of that facility compared with the stricter conditionality of the ESAF. The staff concludes that this flexibility, reflected in "the less ambitious monitoring procedures, including up-front disbursement and the absence of performance criteria and midterm reviews, appear to have contributed to delays in the adoption of corrective policies and a drawn-out adjustment process." One could argue about the conditionality associated with the two facilities. In my chair's view, programs supported by either facility should be tailored specifically to each country's particular problems and needs. While it might be the case that the record of implementation of some programs supported by the SAF has been mixed, it is clear that this facility has been helpful for low-income countries in initiating the adjustment process and in preparing the ground for more ambitious programs. In this regard, one should keep in mind that out of the 11 enhanced structural adjustment arrangements, only one was adopted without a prior program supported by the SAF.

For all these considerations--and while my chair recognizes that better monitoring will definitely help countries to adhere to the path of reform--there is a risk that the staff's proposals for reducing reliance on the SAF could eliminate altogether the incentives and flexibility inherent to that facility and, therefore, discourage countries from embarking on the necessary adjustment programs. My chair's preference is to consolidate program design, to intensify the timely provision of financial and technical assistance, and to ensure that any negative impact of the adjustment process on the poorest segments of the population is mitigated. It agrees as well with the staff that involvement of the authorities in the policy framework paper process is crucial in ensuring full commitment of authorities to the program. On this point, my chair cannot support modifications of the guidelines on access to the ESAF.

On the other operational issues raised by the staff, our positions are as follows. My chair supports the extension of the cutoff date of the ESAF to November 1992. This extension is appropriate and will encourage potential members to embark on such an ambitious program. In the same vein, it strongly supports the extension of programs supported by the ESAF by one year, for those members having good track records but with the prospect of continuous balance of payments needs beyond the existing arrangement periods.

On possible contingency provisions under the ESAF, my chair has mixed views. On the one hand, it believes in the importance of contingency mechanisms in helping countries to cushion the impact of unfavorable exogenous factors, which is all the more evident for low-income countries with nondiversified export bases. On the other hand, my chair considers that the contingency mechanisms developed by the Fund are still complex and untested, and would not be attractive to countries under programs supported by the ESAF, since they involve only a rephasing of access and not an increase in the overall access for the three-year period.

Mr. Dai made the following statement:

I welcome this opportunity to review the operations of the SAF and ESAF, and wish to express my appreciation for the informative and comprehensive papers prepared by the staff. I broadly agree with the staff's analysis and recommendations and can go along with the proposed decisions.

As outlined in the staff's papers, growth increased during the program periods in the majority of programs supported by the SAF and ESAF. Although the overall results have been mixed as regards inflation and the external targets, the programs supported by both facilities have been, to varying degrees, conducive to economic development and structural adjustments in member countries. However, I am still much concerned about the slow pace of utilization of ESAF resources. This issue was discussed at the Board's past review of the operations of both facilities. Unfortunately, the results have not been desirable. According to Table 4 of EBS/90/106, five programs under the ESAF were approved in 1989. Since the beginning of 1990 to date, only one program under that facility was approved.

As of April 30, 1990, resources of the ESAF Trust committed to existing programs amounted to a little over SDR 1 billion, indicating a substantial underutilization of these resources. I agree with the staff's analysis of the issue, and the explanations given in the paper. Nevertheless, I emphasize that efforts should continue to be made to effect a speedy completion of arrangements. It is certainly of great importance for the authorities of member countries with access to potential programs to involve themselves with, and commit themselves to, program requirements as early as possible. Concomitantly, it is just as crucial for the Fund to provide policy studies and technical assistance in a timely manner to the member countries concerned.

With regard to the cutoff date for the ESAF, I can go along with the outcome of the survey made by the staff of eligible member countries concerning their possible use of resources under both facilities. Providing this assistance to low-income member countries is vital if ESAF resources and the Fund's policy advice on macroeconomic and structural aspects are to be extended. We therefore support the staff's recommendations that the cutoff date be extended by two years, to end-November 1992, and that the drawdown periods under ESAF borrowing agreements be extended accordingly.

I am of the view that the relatively slow pace of utilization in no way weakens the case for maintaining the target of SDR 6 billion in resources for the ESAF. Most eligible member countries need financial assistance on concessional terms and remain interested in qualifying for enhanced structural adjustment arrangements. There are also a number of member countries--including a few with relatively large quotas, and those currently in protracted arrears to the Fund--that could, in the context of the rights approach, eventually qualify for enhanced structural adjustment arrangements as well. Therefore, I support the staff's recommendation that the target of SDR 6 billion in resources for the ESAF be maintained. I also support the proposals that the interest rate on loans under that facility remain at 0.5 percent and that the current access guidelines be retained. The two exceptions suggested by the staff are acceptable.

This chair can go along with the staff's recommendation that the list of members eligible for assistance under the two facilities remain unchanged, and that the question of a possible expansion of eligibility be kept under continuing review.

I have noticed from the staff papers that progress in structural policy under programs supported by either of the facilities has been slower than expected. I agree with the staff that in future the focus of such programs should be only on a few structural measures critical for a smooth functioning of macroeconomic policy instruments, for securing balance of payments viability with growth, and that structural performance criteria and benchmarks should be kept to the minimum necessary for monitoring progress in the key areas.

I wish to emphasize how crucial Fund technical assistance is in helping to promote a member country's administrative capacity and to reduce administrative constraints when implementing structural reform. This assistance is vital to the success of programs. It is also important that, in the design of structural policy measures, fuller account is taken of the specific circumstances of the member country concerned, the factors that have given rise to difficulties in the past in implementing structural measures and, particularly, to the limitations in technical and administrative capacity. Therefore, too rigid criteria will be neither helpful nor effective. For instance, a divestiture program is more effective if greater attention is paid to improving the authorities' capability to resolve relevant problems than to setting a certain date and a certain number of public enterprises for divestiture. One of the key elements of structural reform is to improve the efficiency of enterprises and their contribution to the economic development of member countries. Therefore, the criteria or benchmarks should reflect the progress made in this respect.

Regarding balance of payments assistance, the staff paper clearly points to the need for improved coordination between the Fund and bilateral and multilateral aid agencies. I agree that aid will become more effective if undesirable externalities stemming from inconsistent policy recommendations and cross-purpose activities are eliminated. However, care should be taken at all times to avoid cross-conditionalities in the process of such coordination.

The Fund's comparative advantage in macroeconomic policy will be given fuller play if its assessment of the macroeconomic situation of a member country is provided to, and taken account of by, other agencies--bilateral or multilateral--whose comparative advantages lie elsewhere. As for the form in which to transmit Fund assessments of macroeconomic policies to multilateral agencies such as the Asian Development Bank, African Development Bank, and the

EC, I prefer that a brief summary be prepared by the staff based on the staff report and the Chairman's summing up, because such a summary may help gather useful information from the viewpoint of the multilateral agencies and list priorities that will guide the agencies in their decision making. To conserve confidentiality and ensure candid discussions with the member country, caution must be exercised in handling the Article IV consultation staff report.

Concerning the linkages between policy performance and aid availability, although the intention is to prevent delays in adopting appropriate policies and correcting inappropriate policies, it is often hard to distinguish "pure" balance of payments assistance from that for other purposes. It is in this area that cross-conditionality is likely to arise, which the Fund should guard against when introducing linkages. If such linkages are to be established, they should be confined strictly to cases where aid is geared to policy implementation. I agree with the staff that assistance for humanitarian and emergency purposes, and disbursements for ongoing and long-term projects, should not be interrupted, as such interruptions would be counterproductive.

In a similar vein, a case exists for coordination in the area of technical assistance programs undertaken by multilateral institutions, particularly the Fund and the Bank. To make the technical assistance efforts of the multilateral institutions more effective, similar studies by the staff would be useful for discussion.

Miss Napky made the following statement:

The evaluation of the operations of the SAF and ESAF requires not only aggregations of economic indicators and of programs in a broad variety of geographical regions, but also a comprehensive view of a variety of structural problems and complex political and social scenarios. The difficult task before Directors has been well assisted by the appropriately balanced staff papers, which summarize comprehensively the most relevant aspects of another year of operations with the two facilities.

The empirical evidence in the staff papers indicates that the record with Fund-supported SAF programs has been mixed so far, with favorable results in terms of growth, but unambiguously so with regard to external viability and inflation. These results are not comparable to those under the ESAF--as the staff points out--owing to the biased, small sample of countries under the latter.

The economic performance of countries with programs supported by the SAF has been affected by shortfalls in external financing, which is a crucial variable in the programs. In the countries under either facility, external savings are essential for the success of the adjustment, given that those countries' low incomes constrain their savings capacity, which is needed for an increase in investment. For that reason, a shortfall in external savings harms the program, causing slippages. In this regard, the direction of causality of these external shocks for the unsatisfactory performance in the external sectors and domestic financial spheres is not clear from the staff papers.

While my chair generally agrees with the staff's assessment of the reasons for program slippages, it missed in the staff's analysis reference to the importance of different behavior in the main economic variables from that projected, and on which the estimation of performance criteria is based. In this regard, the staff recognizes, nonetheless, that the diversification of exports and the substitution of imports takes time, and that the complex and deep-rooted structural problems faced by countries limits their managerial capacity for implementing at once all of the measures considered optimal. This general view is often forgotten when export and import levels under programs are estimated, and when the appropriate timing for the implementation of measures is specified--estimates that are used, in turn, to project international reserve and public sector borrowing requirements. Consequently, taking into account the lack of resources and the structural bottlenecks, every effort must be made to improve program design in a manner that would allow realistic performance criteria and benchmarks to be set.

Another fundamental ingredient for the success of programs supported by the two facilities is the enhancement of human resources. My chair thus wishes to associate itself with the comments made by Mr. Finaish on the issue of strengthening the Fund's technical assistance for the implementation and monitoring of structural reform, as well as in the context of the policy framework paper process.

With regard to the possible extension of the list of countries eligible for assistance under the two facilities, my chair believes that additional thought should be given to this issue. Nevertheless, it understands that such an extension should depend on the availability of resources, and could be dealt with on a case-by-case basis.

With these comments, I can support the proposed decisions in EBS/90/106. Regarding the proposed decision in EBS/90/122, my chair wishes to associate itself with the comments made by Mr. Piantini. Also, it would like to support the possibility of contingency provisions under the ESAF--as suggested by the staff;

the two-year extension of the cutoff date for the use of resources under the ESAF; and the existing policy on the phasing of disbursements and the rate of interest.

The Deputy Director of the Exchange and Trade Relations Department said that it might be worthwhile to explain the manner in which the staff had approached, *inter alia*, the review of the two facilities, particularly in light of the comments of Mr. Arora. Indeed, one could either look at the record with the SAF as basically successful, or, at the same time, as somewhat deficient. The wording in the staff papers might suggest in places that the staff had adopted the latter view; with hindsight, performance in some cases under the facility had, in fact, been less than hoped for. The staff had sought to distinguish various reasons for the performance shortfalls under the SAF. In some cases, it believed that the shortfalls were the result of factors that could be changed relatively easily, such as perhaps through closer monitoring of developments and policy implementation during the program year, together with more attention to whether envisaged aid flows were materializing. There were other factors as well behind performance shortfalls, but they were more difficult to control.

There was a sense in the staff paper that attention to structural measures was even more important than had been expected initially, the Deputy Director continued. The nexus between macroeconomic and structural adjustment was closer than had been thought several years ago; adjustment failure in either area would cause reciprocal failure in the other, such that macroeconomic adjustment could not be sustained without structural reform, and structural reform could not be sustained without a stable financial and macroeconomic environment. The staff was convinced that the Fund had to continue with programs that addressed both sides of the adjustment issue as intensively as feasible. In the latter connection, there was perhaps some disappointment in the lesson that there might have been a too broad-based, or less than an appropriately focused, effort in regard to structural measures. He recalled some of the early discussions in the Board during the first few years of the SAF's existence, where there had been widespread pressure to incorporate an increasing number of structural measures into the programs supported by the facility. As a result, the policy framework papers, for instance, had become unwieldy and unfocused, with unfortunate impact on countries with limited administrative capacities.

There had indeed been a learning process with the two facilities, the Deputy Director considered. There was currently a greater focus on the specific policy areas that were critical to ensure the effective implementation of macroeconomic policy, and, equally important, on the need to prepare the ground for technical assistance in facilitating policy implementation. The recognition that the institution did not have all the necessary expertise in the area of technical assistance had led to the question of cooperation with aid agencies, whose combined efforts would be a complex operation to coordinate. Yet, he would venture to observe that the existing process of assistance under the SAF and ESAF had been a relatively good one. The effort to raise more funds to enhance the SAF had been predicated on the obvious need for more programs with structural contents. The beneficial consequence had been that the ESAF had provided a longer-term opportunity for Fund involvement with the countries in need. A three-year period of Fund involvement was probably not sufficient in terms of structural adjustment; program periods of three to six years, in fact, were turning out to be necessary for substantively addressing the adjustment process in most countries. That might be viewed in a negative or positive light--with Directors perhaps having preferred that the adjustment proceed faster--albeit it remained the existing condition that needed to be faced. In any event, the Fund had been through probably its most intense period of operations across a broad array of countries in its history. From some 57 annual arrangements that had been put in place, the institution was in the process of deriving specific conclusions.

He hoped that Executive Directors would sense the tentativeness with which the staff was drawing conclusions in regard to experience with the two facilities, the Deputy Director indicated. The conclusions, nonetheless, supported some of the basic propositions that ran across all Fund-supported adjustment programs, including on exchange rate policy, and the need for direct domestic resource mobilization by coming to fundamental grips with fiscal problems, via measures to change the fiscal system itself--and not simply via ad hoc measures--improving thereby revenue elasticity on a sustainable basis. The staff would approach the next three to four years of experience with some humility and candor, moving forward, in particular, in a more coordinated fashion with all of the parties involved in technical assistance and aid flows.

There were currently 33 countries with structural adjustment arrangements, or over half of the members eligible for the facility--excluding India and China--the Deputy Director went on. About 15 countries had indicated that they were not eager to enter into arrangements under the facility, reflecting not so much reticence in regard to the facility but, in some cases, manageable balance of payments situations and adequate aid flows from alternative sources. In addition, the countries in arrears to the Fund also had to be considered. After taking account of these two factors, about four countries were eligible for--and in need of assistance under--the SAF but had not yet requested such arrangements, each being subject to special circumstances. The Fund was holding discussions, at any rate, with the majority of the relevant authorities on entering into possible arrangements. In sum, most of the eligible countries that were not impeded by arrears or special circumstances had come under the SAF, or had moved on to the ESAF. There was nothing preventing the countries eligible under the SAF from moving on to the enhanced version, depending on the policy package. Indeed, the staff had made and would make every effort to encourage countries to move to the ESAF, so that Fund activity with such programs would be particularly intense in the next three to four years.

In proposing to introduce midterm consultations for countries under the SAF, the staff's intention was to be pragmatic, the Deputy Director said. Only a limited number of countries would be affected by the proposal, most of them in their second and third annual arrangements; a few countries would not be affected at all. For those in arrears to the Fund, the presumption was that if they were to become eligible for the institution's resources, they would probably become so under the ESAF--and perhaps with some use of ordinary resources--with program monitoring to be dictated by the procedures under the relevant facilities. The countries with midterm consultations under the SAF would be those countries judged by the Board to need additional monitoring, on the basis of their track records or the policy packages themselves. He would point out that it was not proposed to formalize that procedure since a high majority was required in the Executive Board to change procedures under the SAF, which was derived from the 1980 decision on the Trust Fund.

Some speakers had referred to possible disincentive effects to adjustment if there were to be a fourth year added to programs under the ESAF, and had wondered whether such an extension would in fact represent a concession to gradualism, the Deputy Director of the Exchange and Trade Relations Department observed. The staff, however, held the opposite view. The countries that would be affected were only those that could qualify for a fourth year under the facility before the November 1992 cutoff date. For the most part, they were the ones that had entered quickly into enhanced structural adjustment arrangements, and were, in that sense, examples of a nongradualistic approach. There was no intent that if performance had not been up to standards under three-year programs, countries should then be conceded a fourth year for adjustment, but--indeed--quite the opposite. If countries continued to need assistance--and one would not expect that to be the typical case for countries that had entered into enhanced structural adjustment arrangements promptly--they would be helped by the Fund. In any case, the number of cases involved would be limited.

Concerning the implications for the reserve account of a continuation of the SAF--and of greater flexibility in the period in which SDA resources could be used, if associated with an enhanced structural adjustment arrangement--the Deputy Director suggested that if the counterfactual to that possibility was that SDA resources that remained unused at the time of the SAF's possible discontinuation--with the resources therefore going into the reserve account--then the issue was a legal one dealing with the structure of the facility itself. Any resources not utilized under structural adjustment arrangements would go straight into the reserve account, if the SAF was to be terminated. With greater flexibility in the period in which SDA resources could be used, and the longer the SDA resources were temporarily unutilized before being used in structural adjustment arrangements, the larger would be the earnings on those balances that would accrue to the reserve account. Thus, the reserve could be larger as a result of those operations, not smaller.

The conclusion in the staff paper about exchange rate policy was that stability in the rate would help promote overall macroeconomic adjustment, but only after the proper rate had been established, the Deputy Director stated. There was no implication in the staff paper other than that the rate should be moved quickly to the best possible estimate of the appropriate real exchange rate. On how the appropriate sustainable rate would be assessed, the array of factors involved could be discussed, for example, in terms of considerations regarding competitiveness or market clearing. Under some programs, it had been found that slow adjustment of the exchange rate, particularly in an environment where financial stability had not been maintained, had led to a vicious circle of repeated nominal devaluations which had not succeeded sufficiently in securing real adjustment to the rate. The successful cases seemed to be those in which the exchange rate had been moved as fast as possible to the appropriate rate, and then supported by the necessary financial and macro policies.

An important and worrisome issue was the question of aid shortfalls, the Deputy Director remarked. It was difficult to disentangle policy slippages that might have led to shortfalls in multilateral aid disbursements, from shortfalls that might have led to difficulties in policy implementation and program derailment. Even with some discounting, the evidence nonetheless suggested that policy slippages, in many cases, or inability to agree on policies with the World Bank and major donors, had been behind too many shortfalls in aid flows. He wished to reassure Mr. Mawakani that the staff's first reaction had not simply been to tighten conditions, but was in fact reflected in the paper on the policy orientation and balance of payments assistance of aid agencies--namely, the staff had sought to discuss with the various donors and all of the parties involved the various organizational means of smoothing the flow of aid resources. The problems involved were complex, given the number of parties involved; differences in donors' operational practices, including in terms of their budgeting time frames; and, of course, the fact that the donors had different objectives.

The staff had sought to document the difficulty with shortfalls in aid flows, with the intent of alerting mission chiefs to the problem and to the special efforts that were required, the Deputy Director continued. For example, one could not take for granted consultative groups' commitments, but had to follow up those commitments intensively to ensure that they were fulfilled. With some of the suggested approaches to the problem, the staff had suggested that conservative assumptions be made in regard to the aid flows that would materialize, albeit one would have to be cautious in that area given that that could cut both ways. As indicated in the paper on balance of payments assistance, the staff had also sought to enhance its contacts with aid agencies, so that it would better understand the agencies' procedures and to ensure that, in specific cases, its assumptions on aid flows were as realistic as possible.

In that connection, the staff would rely to the fullest extent possible on the World Bank, the Deputy Director indicated. Indeed, in terms of relations with donors and the mobilization of resources, the staff had relied heavily on the World Bank in the provision of advice and technical assistance to countries, particularly to help implement successfully follow-up procedures. There was an ongoing effort to encourage simplification and standardization of aid agency procedures, the best example being the Bank's highly focused effort with the Special Program of Assistance for Africa. It should be kept in mind that the time frame of Fund operations, nevertheless, was not always the same as the perspective of the Bank or of round tables under the United Nations Development Program. Aid commitments had to be translated sometimes into the specific quarterly time frame of Fund arrangements, in view of the programs' financial benchmarks and performance criteria. The staff had to take the initiative to clarify with some of the agencies, and not just through the Bank, whether aid resources would flow in a time frame consistent with Fund arrangements. A further issue in that regard was the composition of aid, or whether the forms of aid were appropriate to a specific country's circumstances. In some cases, the staff had had to acknowledge general aid commitments without analyzing the balance of payments accounts in sufficient depth to verify whether the underlying composition of such aid would be appropriate--for example, whether variants of commodity assistance were needed in cases where the authorities were not generating adequate foreign exchange on their own, and whether such assistance should be in cash or readily substitutable for imports.

Increased technical assistance in diverse areas was certainly necessary, the Deputy Director emphasized. The departments had to work more closely together on technical assistance, particularly in terms of looking at how such assistance affected program operations and having such operations influence technical assistance priorities more than they had in the past. Program priorities would have to be well balanced with others. Some of the changes under way in technical assistance included: less attention to the placement of longer-term resources on site in favor of shorter-term assistance in direct association with staff country work; a call for better definition or a more comprehensive examination within the policy framework papers of a country's technical assistance needs; and better planning and sequencing of those needs, with earlier identification of departments in the Fund, Bank, or aid agencies--such as within the EC--that had expertise in the relevant areas. Those changes were being put into effect in specific country cases as well as in more general policy terms.

Viability was regarded in the guidelines of the ESAF, in the first place, as a situation in which a country's external current account, after the program period, was financeable with normal, or nonexceptional, and spontaneous capital flows on a sustainable basis, the Deputy Director pointed out. That understanding was the norm for enhanced structural adjustment arrangements. Viability was also seen in the context of countries that could not obtain access to sustainable flows, but which could make substantial progress to that end. By "substantial progress," the Fund meant that a country had reached a point where it would not need exceptional debt relief--which would have increased the country's postprogram debt--and a point at which any required rescheduling would affect no more than the debt principal, with rescheduled interest amounts falling demonstrably. Any proposed financing incorporated into the program should be consistent with the above, and be serviced on its original terms after the program period. Finally, special efforts had to be made in some cases, namely, those in which there were no adequate mechanisms under the international community's existing rules for dealing with debt stock and debt-service obligations. In recent times, management and the staff had made every effort to bring such cases clearly to the Executive Board's attention. Mozambique, for instance (EBM/90/86, 6/1/90), was a case in which it had been indicated that exceptional efforts would be needed in the period following the program supported by the ESAF, if external viability was to be achieved in the postprogram period.

Concerning clearance of documents by area departments and Executive Directors, the Deputy Director said that he wished to assure the Board that there were indeed procedures for deleting especially sensitive material in the particular cases in which that was deemed advisable.

Regarding the proposed decisions, the Deputy Director of the Exchange and Trade Relations Department said that the Executive Directors could perhaps postpone the decision on the proposed extension of the commitment period under three-year arrangements, or, if they considered appropriate, take it up on a lapse of time basis at a later stage. Alternatively, Executive Directors might currently approve all of the proposed decisions, particularly as the decision on the ESAF Trust Instrument would not, in itself, bind any of the creditors. The Managing Director would agree to the extension of the ESAF Trust commitments with individual countries.

The Deputy General Counsel said that a further issue that should perhaps be kept in mind was that dealing with conditionality, particularly in view of the history behind the resources of the SAF. The resources of that facility derived from the Trust Fund reflows, with a long record of associated conditionality. Specifically, he was referring to the conditionality of the Trust Fund loans in the late 1970s, and to the Board decision in 1980--requiring an 85 percent majority--in regard to Trust Fund reflows or the use of SDA funds. That decision had reflected the Interim Committee's view that the terms of access to the prospective resources should be similar to those of Trust Fund loans. Even if that were not the premise of the allocation of use under Article V, Section 12(f), any suggested tightening in conditionality--through the introduction of phasing and performance criteria--would necessitate an amendment of the regulations of the SDA and the SAF, requiring a 70 percent majority.

The Chairman then made the following summing up:

> Today's discussion has covered a wide range of topics relating to the structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF). The Fund has supported the adjustment

efforts of 33 low-income countries through the SAF for four years and through the ESAF for two years. Encouraging results have been achieved toward the resumption of growth, but progress toward balance of payments viability has been rather more mixed. The design of structural policies has been particularly challenging, and we are finding in a significant number of cases that the time needed for fundamental reforms in the face of weak administrative capacity may be somewhat longer than initially expected. The contribution of policy reforms to strengthening external adjustment can be considerable; however, as it may be felt only with a lag, it is important to move quickly to put the proper policies into place. We must continue to seek ways of further strengthening the design of programs and countries' implementation capacity, to ensure maximum effectiveness of Fund assistance and timely repayment of Special Disbursement Account (SDA) and ESAF Trust resources.

1. Program design and monitoring

As far as program design and monitoring were concerned, Executive Directors were generally encouraged by the progress in external adjustment under programs supported by the ESAF but were concerned about the sometimes insufficient results obtained under the SAF. With this experience, it was agreed that the standards of programs must not be compromised in an effort to promote more rapid use of the ESAF, but that countries should be further encouraged to adopt programs warranting support under the ESAF as early as possible.

Directors supported the specific suggestions on program design aimed at improving progress in external adjustment. Greater emphasis should be placed on macroeconomic policy measures to promote domestic savings, particularly a strengthening of the fiscal situation through an early tackling of structural problems in the central government and in public enterprises, as well as positive real interest rates and financial sector reform to promote private savings. Further emphasis should also be given, albeit with due caution, to more rapid progress toward a realistic exchange rate, supported by appropriate domestic financial policies, and by trade liberalization--at least in terms of early removal of administrative controls on foreign trade.

Directors agreed that there was scope for strenthening the specification of structural measures, which should be concentrated in a few key areas critical for the effective functioning of macroeconomic policy instruments. A more systematic use of key indicators for tracking progress in structural reforms should be attempted, for instance, on the financial position of key public enterprises. Technical preparation of key elements of programs, especially structural measures, should be strengthened. This might be achieved through technical assistance organized by the Fund, as well as through close collaboration with the Bank and other donors and agencies in their areas of expertise. The problem of ensuring adequate staff resources will have to be discussed in the appropriate forum.

On program monitoring, Directors emphasized that structural benchmarks and performance criteria should be kept to the minimum necessary, and should be defined as concretely as possible in terms of policy action and timing. For ESAF arrangements, performance criteria and reviews should be specified approximately midway into the arrangement period, which should align more closely with the program period. In all cases, benchmarks should be specified at the outset of the arrangement to cover the entire arrangement period. Prior actions would remain appropriate in cases of policy slippages, or when upfront policy action was essential for attainment of program objectives, and, several Directors added, when track records have not been satisfactory.

2. Policy framework paper (PFP) process and external resources

Directors agreed that the PFP process should continue to be enhanced, by encouraging the fullest involvement of authorities in the preparation of the PFP, and by promoting wider use of the PFP in the internal decision-making of the recipient governments to help forge the necessary domestic consensus. The content of PFPs should continue to focus on priority policy objectives and measures and financing requirements, and further streamlining of the PFP should be attempted. Greater efforts should also be made to use the PFP in the coordination of technical assistance in support of the key policy areas--from donors, the Bank, and the Fund in their respective areas of expertise. This might be achieved by identifying more systematically the needs for such assistance and its proper sequencing. There is also scope for strengthening the coverage of poverty issues. PFPs should identify specific measures that can be taken to help mitigate possible adverse impact of certain policies on vulnerable groups within the context of the overall process of adjustment and in ways consistent with the program's macroeconomic framework.

More generally, Directors were encouraged by the responsiveness of major aid agencies in providing balance of payments assistance in the context of programs supported by the Fund and the World Bank. A few Directors, however, expressed concern at the prospect of increased linkages among the operations of the Fund, the Bank, and bilateral and multilateral aid agencies.

Shortfalls in official balance of payments assistance in a number of programs were of concern to Directors, who agreed that efforts to improve the predictability of aid flows were necessary, including more systematic exchange of information, especially between the staffs of the Bank and the Fund, improvements in policy implementation, and standardization of procurement and disbursement procedures. Reference was made to the efforts of donors in the context of the Bank's Special Program of Assistance for Debt-Distressed Countries in Sub-Saharan Africa.

Directors noted the wide range of contacts between the Fund staff and aid agencies--in close collaboration with the Bank staff and under a variety of modalities--reflecting the diversity of institutional arrangements and preferences of donor and recipient countries. These contacts, especially in the context of local donor coordination mechanisms, have offered occasions for aid agencies and other multilateral organization to convey their views to the Fund, the Bank, and authorities that could be suitably reflected in the PFP formulation process, and which could be beneficial to all concerned.

To facilitate a greater exchange of information on country operations with multilateral agencies that are providing financial support for economic reforms, Directors agreed that the current procedures for release of Fund country documents should be modified to allow access to a wider range of such documents and for a larger group of recipient organizations, provided the confidentiality of the documents would be properly safeguarded. The changes in procedures would comprise staff reports for Article IV consultations, as well as staff papers on requests for and reviews of the use of Fund resources, and papers on recent economic developments. In all cases of documents involving the use of Fund resources, letters of intent and/or policy memoranda, as well as relevant decisions and texts of arrangements, would be deleted; and in certain exceptional cases, perhaps a summary of especially sensitive information would be provided. Directors endorsed the proposal for such a modification on the basis of the criteria set out in the staff paper (SM/90/120).

3. Operational issues

With respect to extending the period during which commitments under three-year ESAF arrangements may be made to November 30, 1992, it is understood that agreement with lenders will be sought for associated extension of drawdown periods to November 30, 1995. I believe that all lenders are, in principle, agreeable to this extension. I would note in this connection that, in the context of the "rights" approach, there would be a probable need for a further extension, and the Board would consider the issues involved at an appropriate time after more is known about the possible scope of use of ESAF Trust resources in this context.

Directors also agreed that the interest rate on ESAF Trust loans would remain at 0.5 percent. I should note, however, that to cover fully Trust lending to the target of SDR 6 billion at that interest rate, additional subsidy contributions would need to be sought.

Directors agreed that the recent experience pointed to the importance of an appropriate degree of program monitoring, which would best be provided through ESAF arrangements, and with a careful tailoring of access to give due account to the track record of policy implementation and the prospects for external viability. In those cases still in the early stages of adjustment, when support under the SAF would be justified but where a convincing record of policy implementation and monitoring has yet to be established, most, but not all, Directors were in favor of requesting a midterm staff consultation and presentation to the Board on progress under the program.

Current policies on access and access limits and phasing of disbursements would continue, subject to the modifications discussed below. In this connection, Directors noted that the current provision for reviewing the annual access level under the ESAF provides flexibility to consider additional financing in case the member faces unexpected adverse external shocks. In addition, most Directors also agreed that augmentation of disbursements at the midyear review could be considered for ESAF arrangements in light of such adverse external shocks. In such cases, augmentation could be considered within the total access committed for the three-year arrangement period, and after a full assessment of the overall situation. For reasons of symmetry, in case of unexpected favorable exogenous developments, it could also be proposed at the time of a review of an annual arrangement that provision be made for a greater reserve buildup or, possibly, backloaded phasing. The staff would need to be cautious in recommending use of ESAF resources for contingency purposes, in light of the reservations that were expressed on this issue.

A range of views was expressed on the possibility of a fourth-year ESAF arrangement, if its approval were to take place before the November 30, 1992 cutoff date. While many Directors felt that this would permit appropriate, continued Fund assistance to early users of the ESAF, others had important reservations. It would be useful to return to the issue in the broader context of resource availability at an appropriate time and after more experience had been gained. Directors also generally agreed that the SAF regulations should be modified to allow disbursement of SDA resources under ESAF arrangements beyond the three-year commitment period of the original SAF arrangement.

On eligibility, some Directors believed that it would be appropriate to extend ESAF eligibility--at least to cover all countries that were currently IDA recipients, and with an appropriate level of access--in view of the slow pace of use of ESAF resources so far. Most Directors, however, considered that under the current projections of total potential use, it would be prudent to retain the existing list of eligibility. Nonetheless, given the uncertainty as to the prospective use of resources by currently eligible members, Directors also agreed to keep the question of possible expansion of eligibility under continuing review.

Directors endorsed the staff proposals concerning the attribution of payments to the SAF/ESAF, which would help make possible the application of all of the Fund's deterrent measures should arrears emerge.

The operations of the SAF, ESAF, and ESAF Trust would be reviewed again by July 31, 1991.

Mr. Goos said that he was not sure whether, in cases of particularly sensitive information in staff papers, the proposed transmittal procedures would include a summary of those issues or their deletion.

The Chairman responded that sufficient flexibility should be retained to use one option or the other, on a case-by-case basis. In some cases, if that was the wish of the country concerned, a summary would be transmitted, and in others, certain sections of the relevant staff paper could be deleted.

Mr. Goos said that he agreed that flexibility in the procedures would be useful. His only concern was that other international organizations, if they became aware of amendments or deletions to Fund documents, might bring pressure to bear to obtain sensitive information.

The Chairman responded that all other international organizations recognized well that there were sensitive aspects of the Fund's work, for instance, with respect to exchange rate developments, that belonged properly within the Executive Board only. Experience showed that those organizations would not insist on obtaining access to such material, and difficulties were unlikely to arise in that area in the future.

The Executive Directors then turned to the proposed decision.

The Deputy General Counsel remarked that it would be useful for the Executive Board to approve the decisions concluding the two reviews, to avoid the need for a further extension for those reviews. Later, at the time the Chairman found that there was the necessary support, the proposed decisions to amend the ESAF Trust Instrument and the SAF could be taken up.

Alternatively, as mentioned by the Deputy Director of the Exchange and Trade Relations Department, the Board could approve all of the decisions other than the proposed extension of the commitment period under three-year enhanced structural adjustment arrangements.

Mr. Goos, in response to a query by the Chairman, commented that he was not in a position to commit his authorities, yet, to supporting the proposed extension of the commitment period.

The Deputy Director of the Exchange and Trade Relations Department, after some discussion, said that the staff hoped to proceed expeditiously with obtaining agreement from creditors to extending the commitment period, which could go forward on an individual basis without the Board approval of the extension necessarily having been obtained. As he understood it, the decision on amending the ESAF Trust Instrument would have no binding force on creditors, each of whom would have to agree to the extension separately. In fact, the proposed decision was independent of each creditor's individual commitment to the extension. The staff could therefore approach the authorities of the Federal Republic and the Kreditanstalt für Wiederaufbau (KfW) when those authorities indicated their readiness to proceed.

The Chairman suggested that the decision on the extension of the commitment period be approved on a lapse of time basis, preferably before the Board's informal recess in August. 1/ A decision on the modification of the procedures for the release of Fund country documents would also be circulated for approval on a lapse of time basis. 2/

The Executive Board then adopted the following decisions:

Structural Adjustment Facility, Enhanced Structural Adjustment Facility, and ESAF Trust - Review of Operation

Pursuant to Decision No. 9114-(89/40) SAF/ESAF, adopted March 29, 1989, the Fund has reviewed the operation of the Structural Adjustment Facility, of the Enhanced Structural Adjustment Facility, and of the Enhanced Structural Adjustment Facility Trust. The operation of these facilities and of the Enhanced Structural Adjustment Facility Trust shall be further reviewed before July 31, 1991.

Decision No. 9487-(90/106) SAF/ESAF, adopted
July 2, 1990

1/ See EBS/90/188 (11/5/90); decision adopted by lapse of time on November 19, 1990, and recorded in EBM/90/162 (11/19/90)

2/ See SM/90/120, Sup. 1 (7/17/90) and Cor. 1 (7/17/90); decision adopted by lapse of time on July 23, 1990, and recorded in EBM/90/120 (7/23/90).

ESAF Trust Instrument - Amendment

Section II, Paragraph 2(d) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, shall be amended by adding the following sentence after the first sentence:

"The Fund may increase, within the overall amount of resources committed under a three-year arrangement, the amount to be made available for the second disbursement under an annual arrangement to help meet adverse external contingencies occurring during the period of the arrangement."

Decision No. 9488-(90/106) ESAF, adopted
July 2, 1990

ESAF Trust - Review of Access Limits

Pursuant to Section II, Paragraph 2(a) of the Instrument to Establish the ESAF Trust, the Fund as Trustee has reviewed the maximum limit and the exceptional maximum limit on access to the resources of the Enhanced Structural Adjustment Facility Trust established by Decision No. 8845-(88/61) ESAF, adopted April 20, 1988. These limits shall be further reviewed not later than July 31, 1991.

Decision No. 9489-(90/106) ESAF, adopted
July 2, 1990

Structural Adjustment Facility - Amendment

The Regulations for the Administration of the Structural Adjustment Facility, annexed to Decision No. 8238-(86/56) SAF, adopted March 26, 1986, as amended, shall be amended as follows:

(i) Paragraph 14(1) shall be amended to read:

"(1) The amounts of such assistance shall be identified in any commitment, arrangement, or disbursement under the Enhanced Structural Adjustment Facility. They shall remain available for disbursement until the expiration of the commitment period under the three-year arrangement under the Enhanced Structural Adjustment Facility."

(ii) The following new subparagraph shall be added to Paragraph 14:

"(5) If a member has received loans from the Structural Adjustment Facility in conjunction with loans from the Enhanced Structural Adjustment Facility Trust, any payment made by the member for the discharge of an obligation under any such loan shall also be attributed to the obligation under the other loan having the same due date in proportion to the respective amounts of such obligations."

Decision No. 9490-(90/106) SAF, adopted
July 2, 1990

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/105 (7/2/90) and EBM/90/106 (7/2/90).

3. HONDURAS - SETTLEMENT OF OVERDUE FINANCIAL OBLIGATIONS AND TERMINATION OF INELIGIBILITY TO USE GENERAL RESOURCES

The Fund decides that effective June 28, 1990 Honduras is no longer ineligible to use the general resources of the Fund as provided in Executive Board Decision No. 9243-(89/114) G/TR, adopted August 30, 1989. (EBS/90/121, 6/29/90)

Decision No. 9491-(90/106), adopted
July 2, 1990

4. COLOMBIA - TECHNICAL ASSISTANCE

In response to a request from the Colombian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/90/192 (6/27/90).

Adopted July 2, 1990

APPROVED: June 20, 1991

LEO VAN HOUTVEN
Secretary