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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/179

9:20 a.m., December 21, 1990

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	Z. Iqbal, Temporary
G. K. Arora	L. E. N. Fernando
C. S. Clark	G. C. Noonan
	D. Powell, Temporary
Dai Q.	
T. C. Dawson	S. B. Creane, Temporary
	M. E. Hansen, Temporary
J. de Groote	J. Prader
E. A. Evans	
R. Filosa	N. Kyriazidis
	B. Bossone, Temporary
M. Finaish	
M. Fogelholm	I. H. Thorláksson
B. Goos	
J. E. Ismael	T. Sirivedhin
A. Kafka	
J.-P. Landau	G. Serre, Temporary
A. Mirakhor	O. Kabbaj
	M. J. Mojarrad, Temporary
	L. J. Mwananshiku
	P. Wright
G. A. Posthumus	
C. V. Santos	Y.-M. T. Koissy
	R. Marino
A. Végh	A. G. Zoccali
K. Yamazaki	S. Yoshikuni
	K. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor
T. S. Walter, Assistant

<u>Also Present</u>
IBRD: F. S. Omar, R. M. Westebbe, Africa Regional Office. African Department: E. L. Bornemann, Deputy Director; E. A. Calamitsis, Deputy Director; G. E. Gondwe, Deputy Director; P. Dhonte, C. A. François, E. C. Harris, A. B. Petersen, J. T. Reitmaier. Asian Department: H. Neiss, Deputy Director; K. Saito, Deputy Director; K. A. Al-Eyd, Y. Harada, Y. Iwasaki, J. E. Leimone, C. Sumi. Exchange and Trade Relations Department: J. T. Boorman, Director; T. Leddy, Deputy Director; B. Delbecque, M. E. Edo, A.-M. Gulde, G. R. Kincaid. External Relations Department: B. Nowzad, Deputy Director. Fiscal Affairs Department: J. Baldet, J.-P. L. Cornely, K. Nashashibi. Legal Department: F. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; D. Asiedu-Akrofi, H. Elizalde, J. J. Hagan, J. K. Oh. Middle Eastern Department: A. S. Shaalan, Director; H. M. Al-Atrash, H. P. G. Handy, J. Hicklin, S. H. Hitti, M. M. Melhem, M. Zavadjil. Research Department: J. Martelino, P. Wickham. Secretary's Department: C. Brachet, Deputy Secretary, R. S. Franklin, A. Tahari. Treasurer's Department: D. Williams, Deputy Treasurer; J. E. Blalock, W. L. Coats, Z. Farhadian-Lorie, S. E. Nocera. Western Hemisphere Department: S. T. Beza, Counsellor and Director; G. L. Terrier. Bureau of Statistics: K. Yao. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: J. O. Aderibigbe, M. B. Chatah, C. D. Cuong, M. Galán, S.-W. Kwon, J.-L. Menda, J.-C. Obame, Y. Patel, B. A. Sarr, H.-J. Scheid, B. Szombati, A. M. Tanase, N. Toé. Assistants to Executive Directors: J. R. N. Almeida, T. Berrihun, G. Bindley-Taylor, Chen M., B. A. Christiansen, J. A. Costa, A. Y. El Mahdi, N. A. Espenilla, S. K. Fayyad, M. A. Ghavam, S. Gurumurthi, M. A. Hammoudi, K. Ishikura, M. E. F. Jones, P. Kapetanovic, K. Kpetigo, R. Meron, F. Moss, M. Mrakovcic, M. Nakagawa, J. K. Orleans-Lindsay, S. Rouai, D. Saha, J.-P. Schoder, D. Sparkes, N. Sulaiman, Tin Win, S. von Stenglin.

1. <u>MONGOLIA - MEMBERSHIP - REPORT OF COMMITTEE</u>

The Executive Directors considered the report by the Chairman of the Committee on membership, recommending the approval of a draft membership resolution on membership for the Mongolian People's Republic for submission to the Board of Governors for a vote by mail (EBD/90/420, 12/19/90).

The Executive Board then took the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the attached draft Resolution.

2. The Secretary is directed to send the attached report and draft Resolution on Membership for the Mongolian People's Republic to each member of the Fund by rapid means of communication on or before December 28, 1990.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 6:00 p.m. Washington time on January 29, 1991. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9616-(90/179), adopted
December 21, 1990

REPORT BY THE EXECUTIVE BOARD

MEMBERSHIP FOR THE MONGOLIAN PEOPLE'S REPUBLIC

The Mongolian People's Republic applied on June 26, 1990 for admission to membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund. Pursuant to Section 21 of the By-Laws, the Executive Board has consulted with the representative of the Mongolian People's Republic and has agreed upon the terms and conditions which, in the opinion of the Executive Board, the Board of Governors may wish to prescribe for admitting the Mongolian People's Republic to membership in the Fund.

The Executive Board has therefore approved the attached Resolution for submission to the Board of Governors for a vote without meeting pursuant to Section 13 of the By-Laws.

DRAFT RESOLUTION

MEMBERSHIP FOR THE MONGOLIAN PEOPLE'S REPUBLIC

WHEREAS, the Mongolian People's Republic, on June 26, 1990 requested admission to membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund;

WHEREAS, pursuant to Section 21 of the By-Laws of the Fund, the Executive Board has consulted with the representative of the Mongolian People's Republic and has agreed upon the terms and conditions which, in the opinion of the Executive Board, the Board of Governors may wish to prescribe for admitting the Mongolian People's Republic to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Board, hereby resolves that the terms and conditions upon which the Mongolian People's Republic shall be admitted to membership in the Fund shall be as follows:

1. Definitions: As used in this Resolution:

   (a) The term "Fund" means the International Monetary Fund;

   (b) The term "Articles" means the Articles of Agreement of the Fund, as amended; and

   (c) The term "SDRs" means special drawing rights of the Fund.

2. Quota: The quota of the Mongolian People's Republic shall be SDR 25 million.

3. Payment of Subscription: The subscription of the Mongolian People's Republic shall be equal to its quota. The Mongolian People's Republic shall pay 22.7 percent of its subscription in SDRs or in the currencies of other members selected by the Managing Director from those currencies that the Fund would receive in accordance with the operational budget in effect at the time of payment. The balance of the subscription shall be paid in the currency of the Mongolian People's Republic.

4. Timing of Payment of Subscription: The Mongolian People's Republic shall pay its subscription within six months after accepting membership in the Fund.

5. Increase in Quota Equivalent to an Increase Under the Ninth General Review: The quota of the Mongolian People's Republic shall be increased to SDR 37.1 million, to which the Mongolian People's Republic may consent in accordance with the provisions of the Resolution of the Board of Governors No. 45-2 on the Ninth General Review of Quotas. This increase shall take effect in accordance with the terms of that Resolution and the Mongolian People's Republic shall pay the increase in accordance with Article III, Section 3 of the Articles.

6. Exchange Transactions with the Fund and Remuneration: The Mongolian People's Republic may not engage in transactions under Article V, Section 3, or receive remuneration under Article V, Section 9, until its subscription has been paid in full.

7. Exchange Arrangements: Within 30 days after accepting membership in the Fund, the Mongolian People's Republic shall notify the Fund of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1 of the Articles.

8. Representation and Information: Before accepting membership in the Fund, the Mongolian People's Republic shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles as contemplated by paragraph 9(a) and 9(b) of this Resolution, and the Mongolian People's Republic shall furnish to the Fund such information in respect of such action as the Fund may request.

9. Effective Date of Membership: After the Fund shall have informed the Government of the United States of America that the Mongolian People's Republic has complied with the

conditions set forth in paragraph 8 of this Resolution, the Mongolian People's Republic shall become a member of the Fund on the date when the Mongolian People's Republic shall have complied with the following requirements:

(a) The Mongolian People's Republic shall deposit with the Government of the United States of America an instrument stating that it accepts in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and

(b) The Mongolian People's Republic shall sign the original copy of the Articles held in the Archives of the Government of the United States of America.

10. Period of Acceptance of Membership: The Mongolian People's Republic may accept membership in the Fund pursuant to this Resolution not later than six months after the effective date of this Resolution, which date shall be the date of its adoption by the Board of Governors; provided, however, that if the circum-stances of the Mongolian People's Republic are deemed by the Executive Board to warrant an extension of this period during which the Mongolian People's Republic may accept membership pursuant to the Resolution, the Executive Board may extend such period until such later date as it may determine.

2. COTE D'IVOIRE - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper on the second review under the 17-month stand-by arrangement for Côte d'Ivoire approved on November 20, 1989 (EBS/90/209, 12/6/90).

The staff representative from the African Department made the following statement:

As envisaged in EBS/90/209 (12/6/90), a mission recently visited Abidjan to review economic developments, including the preparation of the government budget for 1991. The mission found that, despite determined efforts, the new Government needed more time to prepare the budget, in light of the reduction by one third in the number of ministries, as well as the required further adjustments in policy. In the circumstances, the Government has decided to delay the presentation of the 1991 budget to the National Assembly and to request a three-month extension of the revised budget for 1990.

Together with the authorities, the mission team reassessed the revenue projections for 1991 prepared on the occasion of the first review under the stand-by arrangement in June 1990. It was concluded that, in the absence of additional measures, government revenue in 1991 would be significantly lower than hitherto projected because of the smaller revenue base now anticipated for 1990, the higher oil import prices, and the continued low level of economic activity. In addition, the Government will be faced with certain unavoidable outlays, including the costs of the rehabilitation of the domestic banking sector and other reforms. The staff cautioned that the budgetary costs of these reforms would need to be accommodated within the broad fiscal objectives envisaged at the time of the first review of the program. Pending comprehensive discussions on a program for 1991, the staff reaffirmed these objectives as guideposts for any further deliberations on the 1991 budget.

With respect to the fiscal targets for 1990 as a whole, the mission team found that, despite the specific efforts made by the authorities to speed up collections of social security contributions and to increase transfers from public enterprises, shortfalls may occur in these areas. The authorities explained that collections of social security contributions were adversely affected by the fragile liquidity situation of some private enterprises and public entities, while the realization of the target for public enterprise transfers depended largely on the timely commencement of regular payments from the recently created private management company for electricity generation and distribution in Côte d'Ivoire. Such payments are foreseen under the management contract and consist of royalties on the sale of electricity and proceeds from the sale of certain assets transferred to the new management company for liquidation. The payments in question would be received by the former electricity company, EECI, which, although now limited to the management of electricity investments, remains responsible for the debt service owed to the Government. The authorities are convinced that these payments will enable EECI to meet its debt-service obligations, but they acknowledge the risk of an initial slippage in the timing of the payments. However, slippages in revenue performance could be offset by savings in expenditure.

The external financing described in the staff paper has become subject to increased uncertainty. Despite agreement on the principles underlying a reformed pricing policy for petroleum products--the main condition for the release of the final tranche of the World Bank's energy sector adjustment loan--a final decision in this area has not yet been taken, entailing a possible delay of the tranche disbursement into early 1991. While some disbursements by bilateral creditors that have been informally linked to the World Bank's agricultural sector adjustment loan may also be delayed into early 1991, one bilateral creditor has agreed to augment the projected assistance before the end of the year.

In their meetings on December 18-19, 1990 with representatives of the Steering Committee of commercial bank creditors, the authorities described the present economic and financial situation of Côte d'Ivoire and explained the progress achieved so far under the stabilization and structural reform program. They underscored the importance that Côte d'Ivoire attaches to a normalization of its relations with commercial banks, although existing financial constraints had not permitted a resumption of interest payments to banks. They made an initial presentation of the role that the newly launched program to privatize a number of public enterprises could play in the process of regularizing their bank debts. In this context, the authorities invited the banks to explore with them--even before a comprehensive agreement had been reached--the feasibility of debt-equity conversions. A comprehensive agreement would have to await, inter alia, the availability of additional financial resources, possibly in the context of new arrangements from the Fund and the World Bank. Finally, the authorities invited the economic subcommittee of the Steering Committee to update its analysis of Côte d'Ivoire's economic and financial situation and to assemble up-to-date information on the exposure of participating banks.

The bank representatives took note of the financial difficulties of Côte d'Ivoire. They expressed interest in the authorities' proposal for debt-equity conversions; however, they cautioned that it could be difficult to obtain the necessary waivers from all participating banks and stressed the importance of an early resumption of some cash payments to banks. The bank representatives stated that they could not envisage a debt and debt-service reduction operation with commercial banks without parallel concessions from Paris Club creditors. For their part, the banks would be ready to resume negotiations with Côte d'Ivoire as soon as preparations for a medium-term adjustment program were sufficiently advanced--probably in February or March of 1991. At that time, they would also seek to update their own assessment of Côte d'Ivoire's economic situation and prospects.

Mr. Santos made the following statement:

Since the most recent review in June 1990, my authorities have strengthened their efforts in the implementation of the stabilization and structural reform program, thereby demonstrating their continued commitment to the adjustment process. As stated in the staff paper, all the performance criteria for end-September 1990 have been met with substantial margins, except for a minor deviation with respect to the limit on external payments arrears, for which my authorities are requesting a waiver. Despite the efforts made, my authorities are well aware that the general economic situation of Côte d'Ivoire remains difficult, given the weaknesses in most sectors of the economy. It is in this context that the new Government has prepared a timetable to complete the ongoing administrative restructuring process and to set the stage for the revival of the economy in the medium term.

Despite the sharp decline in economic activity and the resulting contraction in the tax base, the overall fiscal performance under the 1990 financial program turned out better than expected through end-September; moreover, for the year as a whole, the overall fiscal deficit, on a commitment basis, is expected to decline from 16 percent of GDP to less than 8 percent. This result is being achieved through the fiscal policy package put in place in June 1990 to produce revenue equivalent to CFA 82 billion in the second half of the year. To achieve this, important steps were taken to strengthen tax and customs administrations. However, the unusual number of structural measures in the fiscal area implemented during the second half of the year has stretched the authorities' capacity for fiscal administration to its limits; due to administrative delays, some new tax measures envisaged in the program have not yielded their full impact and have not generated the expected revenue. These delays are being addressed, and the authorities are confident that, for the year as a whole, the revenue target will be achieved. With regard to nontax revenue, the outturn exceeded the target for end-September 1990 by some 11 percent.

The expenditure performance over the first nine months of 1990 confirms that the measures to reinforce expenditure control are now firmly in place. This is reflected, for example, in the early results of the attempt to strengthen control over payroll operations. Total expenditure is projected to decline by over 1 percentage point of GDP relative to the program target, with savings achieved in all categories of current expenditure. For 1990, it is estimated that total expenditure in terms of GDP will show a decline equivalent to some 3 1/2 percentage points.

During the second review of the arrangement and, more recently, in December 1990, discussions were held on the key elements of the 1991 fiscal program. However, in order to enable the new Government's budgetary orientations and priorities to be fully reflected in the 1991 budget, the authorities intend to extend the 1990 fiscal year for 3 months.

With regard to the monetary sector, performance during the first nine months of the year was also better than expected, as a result of strict financial discipline. Moreover, the measures put in place in June 1990 to restructure ailing banks and to strengthen the financial sector, combined with the large settlement of arrears by the Government and its assumption of unpaid crop credits in commercial bank portfolios, have contributed to the easing of the liquidity situation and the increased profitability and efficiency of the commercial banks.

On the external front, the revised balance of payments estimates indicate that, notwithstanding Côte d'Ivoire's terms of trade setback, the current account deterioration will be less than programmed. This outturn reflects the strong growth in the export volumes of coffee and cocoa caused partly by a greater than expected reduction of existing stocks, the pickup in nontraditional exports, and broadly unchanged import volumes. The better than programmed external outlook reflects also the savings on projected external debt obligations resulting from the exceptional interest concession from the French Caisse Centrale de Cooperation Economique. Despite the lower than envisaged capital account position, the overall balance is projected to show some improvement. Côte d'Ivoire has concluded all bilateral agreements with Paris Club creditors, who have also agreed to extend the deadline for the activation of the second part of the consolidation period to end-December 1990. Furthermore, the Government has indicated that the delay that occurred in the elimination of nonrescheduled arrears to Paris Club creditors at end-October 1990 will be corrected shortly.

My authorities had further discussions with representatives of the Steering Committee of commercial banks in Abidjan earlier this week. During these discussions, the authorities reiterated their strong desire to seek a durable solution to Côte d'Ivoire's external debt overhang and to regularize their relations with creditors despite the limited resources available. In this connection, they expressed a strong interest in developing a comprehensive financing package featuring a larger number of debt-equity conversion options.

As indicated by the staff, substantial progress was achieved in the course of the past six months in implementing a wide range of structural reform measures covering key sectors of the economy, such as energy, water, and agriculture. In the energy sector, my authorities have placed the management of the most important public enterprise, EECI, in the hands of a private consortium. In the petroleum sector, the authorities are exploring proposals made by the World Bank for a reform of the pricing, storage, and distribution systems and for a consolidation of various petroleum taxes. These reforms are expected to improve domestic retail price flexibility and permit a rapid move toward a pricing system based on import parity. Moreover, all the measures envisaged under the water sector program have been implemented as of September 1990.

Despite measures taken toward the financial stabilization of the agricultural sector and the reformation of the cotton subsector, there have been delays in the implementation of the third phase of the program as envisaged under the World Bank agricultural sector adjustment loan. The authorities are carefully studying the proposals to overhaul the existing coffee and cocoa marketing arrangements, in order to assess and to minimize the direct and indirect impact of these reforms on the agricultural sector, on which the livelihood of so many people depends.

Progress by the working group on privatization is proceeding well ahead of schedule. The broad outlines of the authorities' privatization plans have been formulated, and technical structures have been put in place to speed up privatization procedures. The authorities will soon proceed with the privatization of the National Telecommunication Office, as well as a number of public enterprises in the agricultural and livestock sectors.

As described in the staff paper and in the authorities' letter of intent, considerable progress has been made since May 1990 in the formulation of reforms designed to reduce factor costs, simplify regulations, and improve the competitiveness of the economy. New legal and regulatory provisions will soon be finalized and submitted to the Government for approval and implementation.

In conclusion, my authorities have strengthened their stabilization program and accelerated the pace of structural reform in the economy. Despite the sharp economic contraction and the deteriorating terms of trade, they are confident that the program's objectives remain fully achievable. The continued support of the international community will remain crucial to the success of their efforts and to the achievement of their medium-term objectives of sustained economic growth and a viable external payments position.

Mr. Landau made the following statement:

The satisfactory start made under the revised program adopted in June 1990 has been confirmed in several areas. All performance criteria for end-September 1990 were met--and some with extensive margins--except for external payments arrears. This has been accomplished despite the sluggishness in economic activity, the steady deterioration in the terms of trade, and the major political and social transformations of recent months. Côte d'Ivoire has been able to absorb such dramatic developments while reinforcing its economic track record, thereby demonstrating the authorities' continued commitment to their stabilization and structural reform program.

The statement by the staff provides supplementary information to the comprehensive analysis provided in the staff paper. We broadly share the staff's comments and recommendations; therefore, I shall focus my comments on those points on which the authorities' attention should be concentrated for a successful program outcome.

First, as regards public finances, the major steps taken on the political front will clearly have a considerable impact on the quality of economic management. The recent cabinet reshuffling has been wide-ranging, reducing the number of ministries and allowing a group of young and skilled technocrats to join the Government for the first time.

This has been an indispensable and crucial step in the process of reinforcing the overall fiscal performance that has been under way since June 1990. We are pleased to note the significant progress already achieved, as the primary fiscal balance--the relevant standard in Côte d'Ivoire's case--will likely move from a deficit of 7 percent of GDP in 1989 to a surplus in 1990. Nevertheless, since the revenue-raising package proved less successful than expected, we urge the authorities to further accelerate their efforts to broaden the tax base and collect tax arrears.

On the expenditure side, current outlays have been satisfactorily contained at a level consistent with the objectives of the program. Worth noting are the savings incurred by the Government on the wage bill and on social security benefits. We wonder, however, whether further consideration could be given to reducing the wage bill. We would appreciate some comments from the staff on this issue, as a reduction of this kind would be compatible with a more equitable sharing of the adjustment burden by the urban and the social sectors.

As a result of strengthened fiscal discipline, the authorities have been able to undertake the reduction of internal arrears in a comprehensive and resolute manner. The performance criteria related to net bank credit to the Government and total credit have been met, and the partial settlement of Government arrears has helped banks to rebuild their reserves. Despite this initial progress, the liquidity crisis arising from the buildup of domestic arrears is still affecting the economy and remains a cause for serious concern.

For this reason, uncertainties surround the attainability of some fiscal targets. In this context, we fully sympathize with the Government's position, as described in Mr. Santos's opening statement, on the necessity of allocating more time to assess the key elements of the 1991 fiscal program and, therefore, extending the 1990 fiscal year for three additional months.

Turning now to structural reforms, we see that important progress has been realized in various areas thus far, in particular with respect to price liberalization and the simplification of trade regulations and labor laws. Moreover, in connection with the privatization program, the authorities have undertaken a wide-ranging monitoring program of the public sector. In this regard, the recent disbursement of the second tranche of the World Bank's water sector adjustment loan is welcome.

It is clear, however, that the initial timetable has suffered some delays, especially in the agricultural sector. Given the major shock that this sector endured in 1989 following the reduction of producer prices, and the difficulty of addressing the streamlining of the various rural sector entities without risking that sector's destabilization, we wonder whether the assumptions of quick results in this area were not too optimistic.

As regards the economic situation, the inflation performance undoubtedly constitutes a positive asset for the future. The current account deficit is expected to improve slightly in 1990, mainly owing to a reduction in imports, as investment and economic activities are expected to remain on a downward trend.

This trend underscores the need to secure sufficient external financing as a support for Côte d'Ivoire's adjustment effort, not only for 1990, but also for 1991 and thereafter. The Bretton Woods institutions should continue to play an important role in this matter, and we would like to emphasize the importance of further commitments on their part. In this respect, the prospect for a comprehensive financial sector loan from the World Bank in 1991 is welcome.

Support from the Bretton Woods institutions should be determined by taking into account the requirements for establishing a coherent medium-term economic framework, as well as Côte d'Ivoire's satisfactory track record. There is no doubt that the authorities are aware of the difficult task that remains ahead; however, they need sufficient time to design such a medium-term program.

The recent meeting with representatives of the commercial bank creditors was also important. It is crucial to obtain a rapid normalization of Côte d'Ivoire's relations with these banks by exploiting every possibility to improve the present situation and to find appropriate solutions. Indeed, despite the present difficulties, the potential for economic development still exists in Côte d'Ivoire.

We support the proposed decision.

The Chairman said that the Fund management had also been impressed by the quality of Côte d'Ivoire's new economic team.

Mr. Prader made the following statement:

In our previous review of the stand-by arrangement for Côte d'Ivoire, this chair was not wholly satisfied with the modification of the program, as we felt that it lacked significant strengthening. However, in view of the fact that the Ivoirien authorities were only partly responsible for the widening of the economic imbalances that have taken place since late 1989, as well as the consideration that sufficient time should be given to the new Government to convince political circles and the general public of the need for a fundamental change in policy course, we supported the proposed program changes.

Today, six months later, it seems that, based on the profound political changes that have taken place in the country, the ground is being prepared for just such a fundamental economic policy overhaul. The authorities should therefore strive to put together as soon as possible a medium-term framework that could lead to a successful program of adjustment with debt reduction for the Ivoirien economy. The Article IV consultation scheduled for February 1991 would provide a timely opportunity to proceed in the appropriate direction.

Meanwhile, as a sort of prior action, every effort should be made to keep this stand-by arrangement on track. If the authorities were to fail in this regard, the outlook could be very bleak indeed. A timetable for negotiations with commercial banks on a debt reduction program would then become meaningless, and the possibility of falling into arrears vis-à-vis the multilateral institutions would increase substantially, given the recurring short-term delays in payments to the World Bank that are already noticeable today.

Keeping the program on track and meeting the end-December 1990 performance criteria might not be an easy task, but the results so far have been reasonable; the new Government should see further results from the May 1990 package of policy actions, as well as from other measures taken since then. Moreover, external conditions have not been too unfavorable to the country, at least not when compared with the projections. Oil prices have increased substantially, but the appreciation of the CFA franc in terms of the U.S. dollar has brought some relief, as have the favorable weather conditions, which have helped to explain the sizable increase in coffee and cocoa exports.

There remain a number of worrying signs, however, to which the staff paper aptly points. One is the evolution of the budgetary position. Whereas tax revenue is still on track, the staff expects a deterioration in this area in the fourth quarter of 1990, as Table 6 indicates. Fortunately, nontax revenues will come to the rescue, but it should not be forgotten that the better than expected result here is explained wholly by budgetary cosmetics, namely, the CFA 37 billion domestic arrears offset that prevented a breach of the end-September 1990 performance criterion on the overall fiscal deficit. Moreover, no provision has yet been made for the costs of the rehabilitation of the commercial banks--a crucial element of the Government's structural reform effort. I hope that the 1991 budget will take account of this expense, now that the extension of the 1990 fiscal year has made possible an extra three months of preparatory work.

A second worrying element concerns the pace of reform for the public enterprise sector, which has developed more slowly than originally envisaged. This is especially unfortunate, in that it has caused the nonfulfillment of the conditions for disbursement of the third tranche of the World Bank agricultural sector adjustment loan in 1990. Slow progress in improving the supervision and control of the public enterprise sector seems also to have contributed to the registered shortfall in the amount of transfers from the public enterprises to the Central Government budget at end-September 1990. In view of the country's need for a medium-term program aimed at deepening the financial and structural adjustment effort, every opportunity should be seized to implement structural measures as soon as possible, regardless of the complexities involved, now that the political hurdles seem to have been cleared. These measures would help to bring about a lift in the economy's appallingly low rate of investment, which, according to the staff paper on the CFA franc arrangements (SM/90/136, 7/9/90), was a mere 7.7 percent in terms of GDP in 1989, as compared with the franc zone average of 16.4 percent. In the same vein, I am somewhat puzzled by the footnote on page 13 of the staff paper referring to public investment expenditure in 1990. Could the staff be more explicit on this point?

Related to the question of structural policy is the status of the Ivoirien economy's competitiveness. I welcome the progress made here by the working group reviewing the problems related to factor costs and competitiveness, but I would urge that the pace of reform should be stepped up. I stress this point, partly because I am not wholly reassured that the recent adverse developments in the bilateral real exchange rates of Côte d'Ivoire will not hinder the nascent efforts to diversify exports. Indeed, Charts 1 and 2 in the paper on the CFA franc zone bear out the fact that, since 1987, Côte d'Ivoire has particularly suffered from the appreciation of the French franc.

The last--but certainly not least--worry concerns the external arrears of the country. Although it is essential--in order to help correct the serious imbalances--that the authorities and the international community work out arrangements to ensure financial support over an extended period, it is equally important to prevent a further buildup of arrears now. Unfortunately, the country does not seem to have fully exploited the measures that could have decisively stopped such a buildup in 1990: it has failed to meet some of the conditions for disbursement of a World Bank and African Development Bank loan in 1990, causing a financing shortfall at the end of this year; it has not met the deadline for the elimination of its nonrescheduled arrears to Paris Club creditors; and it has only recently initiated negotiations on a comprehensive restructuring of its commercial bank debt.

Like the staff, however, I am willing to extend further credit to Côte d'Ivoire's authorities, and I express the hope that their determination will indeed result in a deepened and adequately financed adjustment effort in the coming years. I therefore support the proposed decision.

Mr. Yoshikuni made the following statement:

This stand-by arrangement has been a controversial one from the outset, as it has raised the same wide range of questions that the Fund faces in general today, including, inter alia, debt problems and financing assurances, external adjustment under a rigid exchange rate arrangement, and prior actions and modifications of the performance criteria. Côte d'Ivoire has also received compensatory financing for the decline in coffee and cocoa prices amid questions about the controllability of both the cocoa price and standard price of coffee.

This chair has repeatedly expressed concern about the distortion in the balance of the financing adjustment, and we continue to maintain most of these fundamental concerns. In particular, I am not sure to what extent the weakening of financial assurance justifies the urgency of the Fund's financial support. The case of Côte d'Ivoire presents a puzzling situation, in which debt negotiations are encountering considerable delays and the country's financing gap is not closing, despite the observance of most of the performance criteria during the program period.

In my view, this inconsistency in the program design has been further intensified by a series of breaches and modifications of the performance criteria. The Fund plays an important catalytic role; however, its catalytic role will be incomplete unless the program design ensures external viability over the medium term.

With these points in mind, it is a relief to note that an inspection of Côte d'Ivoire's performance since the most recent review indicates that most of the revised performance criteria for end-September 1990 have been met. This success, which became possible only after the targets had been lowered, stems largely from the resumption of fiscal adjustment efforts after the second quarter of the year. Nevertheless, the underlying fiscal imbalance--as evidenced by the large stock of domestic arrears--remains to be addressed; reduction of that imbalance should be supported by the expeditious enactment of structural reforms. In addition, the staff paper's relative silence on incomes policy--and developments on the wage front in particular--is somewhat surprising; although the issue of public sector wages would seem to have been settled at the most recent review, significant implications remain for both private sector wages and the external competitiveness of the economy.

In the area of fiscal policy, the successful meeting of this year's target is welcome. Nonetheless, it is discouraging to note that the most recent report suggests that a significant shortfall in revenue will arise in 1991. In addition, the cosmetic and less than transparent way of settling the Government's arrears is a cause for concern. The staff's candid views on this issue are appreciated; however, the counterpart of the cancellation of the arrears payment should have been recorded as a financing item. Moreover, the arrears, as well as other past transfers of public deficit, cannot be addressed unless the underlying large fiscal imbalance is corrected. As the capacity for external payment can be attributed to the availability of counterpart resources, fiscal policy should bear the main burden of this adjustment.

In order to consolidate this gain, fiscal policy should be geared to the further strengthening of revenue structure, as well as to expenditure retrenchment, as these actions are required to reduce external payment arrears more rapidly. I hope that the authorities can prepare a more ambitious budget during the three month moratorium. In this connection, it should also be noted that tax revenue is projected to fall short of the program target on a cash basis, despite the introduction of new measures. Determined efforts are also needed to expeditiously implement a program to strengthen tax administration.

On structural policies, I share the staff's concern about the delay in reforming the agricultural sector. First, the delay caused a shortfall in an official loan disbursement. More important, the expeditious implementation of agricultural sector reforms is essential to improve the efficiency and external competitiveness of the economy, given the lack of room for exchange rate adjustment. In the same vein, the privatization of public enterprises is important, not only from the financial viewpoint--in fact, the performance of Côte d'Ivoire's public enterprises is generally better than in neighboring countries--but also from the viewpoint of enhancing economic competitiveness. However, privatization should be accompanied by sufficient labor market and price liberalization.

On the external front, the delay in the commercial debt negotiations is a cause for concern. The large and growing stock of interest payments arrears is a stumbling block in the negotiations. While the authorities should maximize their efforts to address the arrears problem, I can support the use of debt-equity swaps, namely, the admission of foreign participants into the privatization program. This option is already on the debt reduction menu of some Latin American countries. Nonetheless, an early conclusion to the debt negotiations will be vital for re-establishing Côte d'Ivoire's credibility in the international financial community.

Turning to the medium-term policy framework, I have mixed feelings about its prospects. Although I appreciate the authorities' efforts to accelerate their structural adjustment measures, the pace of external adjustment is still running behind the rapidly deteriorating external environment. In my view, the lack of room for exchange rate adjustment is not only increasing the cost of domestic adjustment, but also prolonging the existence of the external imbalances. I doubt whether a medium-term program can assure restoration of external viability for Côte d'Ivoire without exchange rate flexibility--especially when the country's extreme vulnerability to the external environment is taken into account. The staff's careful consideration of this situation is therefore warranted.

We remain concerned about the vulnerability of the macroeconomic framework of the program, as evidenced by the possible shortfalls in external financing for the current year, and in revenue for 1991. Nevertheless, as the authorities' adjustment efforts are moving in the right direction, I can support the successful conclusion of this review. I support the proposed decision.

The staff representative from the African Department said that, in September 1990, the authorities had cleared domestic payments arrears of almost CFA 130 billion--equivalent to approximately one fourth of the total domestic payments arrears at the time. More than half of those settlements had been made in cash, coming partly from financial assistance received by Côte d'Ivoire in September; the rest of the settlements had been in the form of offsetting operations against tax arrears and against exceptional reserves held by a public enterprise in the cotton industry (CIDT) with foreign minority ownership. The counterpart of that reduction of arrears had been classified by the Government as nontax revenue. In particular, the use of the exceptional reserves of the CIDT and the associated reduction in its claim on the Government had been treated as an exceptional profit of the Agricultural Price Stabilization

Fund (CSSPPA) and, as such, had been entered as nontax revenue in Table 5, the staff paper's table on government operations.

Before further analysis of that operation, the staff representative continued, it was useful to recall that Table 5, which was used to monitor the financial program, combined budgetary transactions that accorded with government accounting procedures and transactions of public entities such as the CSSPPA, which followed private accounting procedures. The balance sheets and current operating statements of those public entities were used to derive some of the entries on consolidated government operations in Table 5.

Over the past few years, the CIDT--unlike many other public enterprises in Côte d'Ivoire--had accumulated substantial reserves and provisions against the nonpayment of subsidies granted by the Government through the CSSPPA, the staff representative recalled. Those subsidies had been intended to cover the excess of the guaranteed cost price over the actual sales price of cotton in the international markets. A recent audit of the fund's account by a special unit of the Government had indicated that the CIDT--whose operations, incidentally, were totally tax-exempt--had been partly overcompensated by the CSSPPA. Based on that discovery, the Government had decided in September 1990 to cancel part of the subsidy owed to the CITD and the counterpart reserve item in the company's balance sheet. At the same time, in order to improve the liquidity position of the CITD, it had paid CFA 7 billion in cash and had made a commitment to settle the remaining CFA 12 billion during 1991-1992. Naturally, that rescheduling of government arrears had not been included in the September arrears reduction; as had been noted earlier, the counterpart to that reduction in the special fund's arrears to the CITD had been entered as an exceptional profit on the revenue side of the Government's ledgers.

Those operations should be seen in the broader context of the strategy to reduce domestic arrears in Côte d'Ivoire and restructure the marketing arrangements of the major export crops, the staff representative observed. Although the staff had not anticipated that specific transaction, it had acknowledged in the program Côte d'Ivoire's need to use the cancellation of tax and other arrears as a means of reducing the amount of government payments arrears. The prevailing liquidity crisis of the economy had contributed to the larger than expected increase in the scale of such compensatory operations. Moreover, it was likely that, in the coming years, those operations would remain an important feature of the strategy to reduce domestic arrears. Those operations were also part of the ongoing reorganization of the marketing strategy, which was aimed at achieving greater autonomy in the management of each crop and greater flexibility in determining producer price and marketing cost. As a result, cotton prices had in fact been reduced during the current crop season. That reform would soon culminate in a comprehensive agreement between the Government and the CITD that would completely ensure the company's financial viability.

Although detailed discussions had not yet been held, the question of further reductions in Côte d'Ivoire's wage bill would clearly be an important issue in the next program, the staff representative remarked. Reducing the wage bill would involve a lowering of the retirement age from 63 to 55 and, in the context of the administrative reorganization of the Government, the implementation of the recently announced voluntary departure program. Other difficult issues included the harmonization of the wage structures and the possibility of additional cuts in fringe benefits.

Because the investment data collected by the authorities through the third quarter of 1990 included noninvestment expenditure items, the actual level of investment through end-September 1990--as reported in Table 5 of the staff paper--had probably been overestimated, the staff representative commented. A reclassification of government expenditure items would result in a downward revision of the actual investment data for September. Therefore, the staff's estimates of investment in Table 5 for the year as a whole remained valid.

Côte d'Ivoire was encountering numerous difficulties in making concrete progress toward a comprehensive agreement with commercial banks, the staff representative stated. The authorities anticipated that, because of the continuing financial constraints, resumption of interest payments to the banks would have to await the availability of financial resources, which would probably be realized in the context of new arrangements with the Fund and the World Bank. Those discussions would be further complicated by the related issues of privatization of public enterprises and debt-equity conversion--issues with which Côte d'Ivoire had little experience. Moreover, the banks' insistence on additional concessions by Paris Club creditors before consideration of debt reduction operations--an element clearly beyond the control of the Ivoirien authorities--further complicated the negotiations.

Regardless of those developments, the staff expected to begin negotiations with Côte d'Ivoire on a new program sometime during the next three months, the staff representative from the African Department commented. In those negotiations, the staff and the authorities would examine all possible measures and policies that could contribute to the acceleration of the adjustment process. However, as the staff had emphasized on several occasions over the past two years, even assuming--perhaps optimistically--that the authorities would be able to implement a strong adjustment program, the re-establishment of full medium-term viability would still be linked to the successful completion of debt and debt-service reduction operations, and to continued flows of external financial assistance on concessional terms. In the context of a possible new program, therefore, it would be important for Côte d'Ivoire to establish appropriate long-term financial arrangements with the international financial community.

Mr. Iqbal made the following statement:

A good beginning has finally been made in Côte d'Ivoire. Since June 1990, the economic performance has by and large been good, although there has been a small deviation from the limit on external payments arrears. Credit goes to the firm leadership provided by the new economic policy team in formulating and effectively implementing difficult policy measures.

However, while there has been substantial progress on the fiscal front in 1990, and while the overall balance of payments has turned out to be somewhat better than programmed, Côte d'Ivoire has a long way to go before self-sustaining growth can be restored. The financial constraints remain critical indeed. The near-term outlook is somber, and the medium-term outlook remains uncertain. Clearly, a more difficult task lies ahead, which will call for a further strengthening and deepening of adjustment and structural transformation. In this endeavor, the authorities will have to undertake a more intensified fiscal effort, an accelerated pace of privatization, and a tight restraint on wages, while maintaining an exogenous exchange rate. It is essential that creditors, including commercial banks, should play a more active role by providing the needed exceptional financing. It would be very helpful if commercial banks could enter into debt-equity swaps, at least on a limited scale, even before the comprehensive package is agreed upon. In this respect, I wonder if it would be possible for official creditors to ease debt rescheduling terms, so that commercial banks could venture into debt-equity swaps and debt reduction could take place.

Looking ahead, it will be necessary for the authorities to fully chart a medium-term program, to which the program for 1991 should be integral. Côte d'Ivoire might not be in a position to continue as strong a budgetary effort in 1991 as it did in the second half of 1990. Additional revenues will require new tax measures, which, in turn, will call for prior structural changes. For that reason, the focus in 1991 should be on further expenditure-reducing and switching measures, and the room for reducing wage expenditures and shifting to investment expenditures should be explored aggressively. It is to be hoped that the reform of the CSSPPA, which is presumably being undertaken in collaboration with the World Bank, would permit an elimination of budgetary transfers so that expenditures can be switched.

On a related matter, I was surprised to see that oil product prices are significantly higher in Côte d'Ivoire than in the world market and in neighboring countries. Undoubtedly, maintenance of such high prices would not be conducive to export diversification. It is unfortunate that, instead of calling for the adjustment of such prices to the level of either world prices or those prevailing in competitor countries, the staff is encouraging their maintenance in order to raise revenues. It is very disturbing to note that oil is increasingly being viewed as a captive source of tax, rather than as a valuable factor of production whose discriminatory pricing would be distortionary, at the very least.

I fully support the staff's position that the early restructuring of agricultural marketing and credit institutions, the privatization of public enterprises, the deregulation of the economy, and the reforms to the financial sector should be the focal point of the renewed structural transformation. This transformation will require not only strengthened public management, but also a sustained and dramatic increase in gross domestic savings, which, as the equivalent of only 10 percent of GDP in 1990, are 50 percent lower than in the mid-1980s. While improvement in the budget would help, a higher rate of private savings will be essential for structural transformation to succeed.

I support the proposed decision.

Ms. Hansen said that the many positive changes under way in Côte d'Ivoire were welcome, and that she could support the proposed waiver for the small deviation from the limits on external payments arrears.

The staff's explanation of the accounting treatment of the counterpart of the cancellation of the government debt owed to the textile parastatal was helpful, Ms. Hansen continued; however, the method of treatment was somewhat perplexing. Like the staff, she would have preferred the counterpart to have been recorded as a financing item. That would have been more transparent and avoided any perception that an attempt had been made to mask inadequate revenue performance. Moreover, the resulting small deviation from the deficit target could have been handled via a waiver.

Nevertheless, Ms. Hansen remarked, in view of the revenue performance as of end-September 1990, the erosion of government petroleum tax revenues brought on by the rise in world oil prices, the realization of larger stabilization losses with the liquidation of stocks, and the continued weakness of tax administration, questions were being raised about the likelihood of the end-December 1990 deficit target being met. Any further elaboration on that point from the staff would be welcome.

The information provided by the staff on Côte d'Ivoire's renewed discussions with the commercial banks and the banks' reported interest in the authorities' proposal for debt-equity swaps was welcome, Ms. Hansen commented. However, it was regrettable that Côte d'Ivoire had thus far been unable to resume even partial payments to banks, or to reach an agreement on an arrears settlement with other private external creditors.

Reportedly, Ms. Hansen noted, the commercial banks would be ready to resume negotiations with Côte d'Ivoire as soon as preparations for a medium-term adjustment program were sufficiently advanced--perhaps in February or March of 1991. She hoped that Côte d'Ivoire's performance under the remainder of the stand-by arrangement would provide the basis for developing a strong, comprehensive medium-term adjustment program that would catalyze broad external support.

Mr. Evans said the Ivoirien authorities had clearly made extraordinary efforts in very difficult circumstances. It was therefore not surprising that the results had been somewhat mixed. However, their performance, which, as other speakers had pointed out, had changed the outlook for Côte d'Ivoire, was a very marked improvement on the past. On that basis, he supported the proposed decision.

However, the strange budgetary transaction that many speakers had already cited was worthy of further examination, Mr. Evans remarked. Although the transaction had been explained in the staff paper, and discussed again in greater detail by the staff representative, the rationale behind it was still unclear. Although it was not unusual for countries to adopt different fiscal accounting systems, the staff would normally standardize those different systems by using the approach outlined in the Fund's Government Finance Statistics manual. Moreover, the staff had indicated that, if the normal process of standardization had been followed, it would have recommended a waiver for the breach of the end-September 1990 performance criterion on the overall fiscal deficit. In those circumstances, the failure to exercise that option was truly puzzling.

The performance criteria for the stand-by arrangement dealt only with the activities of the Central Government, Mr. Evans noted. Because the authorities' budgetary transaction had caused a reduction in the Central Government deficit without affecting the deficit of the consolidated public sector, there was the possibility that "creative accounting" transactions of that sort, in which deficits were shifted from one branch of the public sector to another, would be repeated.

Perhaps the staff could explain why the performance criteria had been formulated solely with respect to the Central Government.

Ms. Powell made the following statement:

We find the staff paper on this latest review of Côte d'Ivoire's program considerably more reassuring than the paper prepared for the previous review. It is apparent that the authorities are making a very serious endeavor to meet the goals of the program. We would like to commend this effort; however it is also clear that much remains to be done, and that there can be no slackening in this effort. If anything, the effort should be intensified.

I broadly agree with the staff appraisal and the views expressed by earlier speakers. There is a need for further substantial expenditure and revenue efforts in 1991. Although performance criteria under this program do not go beyond the end of 1990, the staff paper has pointed out that the primary surplus should be increased to 3.3 percent of GDP in 1991, compared with the target of just under 1 percent of GDP for the current year. Although the 1990 target apparently will be met--a major improvement over 1989--fiscal performance remains a cause for concern.

The primary deficit figures actually understate the magnitude of the effort that will be required. Revenue losses resulting from higher oil prices will have to be offset; in addition, 1990 receipts were bolstered by exceptional revenue from the clearing of tax arrears and government payments arrears through offsets and, in particular, from the cancellation of arrears. We agree with other speakers that the treatment of the cancellation of the arrears to the CIDT seems questionable. In light of these factors, as well as of the delays in improving the tax and customs administrations and the weakening of the revenue base as a result of the contraction in the economy, it is clear that the authorities will need to intensify their efforts. In his opening statement, Mr. Santos indicates that the authorities have decided to extend the 1990 fiscal year by three months. Although it is understandable that the new Government should want some time to assess its policies, we hope that this move will not imply any delay in the implementation of the reforms, which should be incorporated in the 1991 budget. In addition, we hope that the preparation of the 1991 budget will not be delayed beyond the first quarter of 1991.

We are also very concerned about the projection of a continuing large financing gap over the medium term, the further buildup of arrears to commercial banks--with apparently little prospect of even partial payments in the near term--and the lack of any progress in negotiations with the banks. Indeed, progress toward even the beginning of negotiations with banks on a debt restructuring package has been slower than expected. Although a follow-up arrangement with the Fund is planned, we would hope that there would be some signs progress in negotiations with the banks before a new program comes to the Board.

The staff notes that the underutilization of domestic bank credit was due to the fact that an unusually large amount of checks issued by the Treasury had not been cashed by the end of September 1990. Could the staff provide details on the reasons for this unusual situation and tell us whether it is likely to reoccur?

We can support the proposed decision, not because we do not have continuing concerns, but because we recognize that the Ivoirien authorities have been making a strenuous effort to come to grips with the many deep-seated problems in their economy.

Mr. Wright made the following statement:

Like other speakers, I am encouraged that, despite unfavorable external developments, the authorities met or nearly met all the revised end-September 1990 performance criteria. I, too, can accept the draft decision. However, as other speakers have pointed out, Côte d'Ivoire's underlying economic problems remain extremely serious, as is clear from the large financing gaps that persist into the medium term. Moreover, the absence of any exchange rate flexibility means that domestic policies have to bear the entire burden of adjustment, and GDP has already fallen very sharply. Fiscal policy will unavoidably need to be tightened for some time to come. In this connection, the staff statement makes extremely gloomy reading; the delays and shortfalls reported there are a matter of great concern. Fiscal policy also needs to be supported by a sufficiently rapid pace of structural reform to ensure that the burden of adjustment does not fall exclusively on the already hard-pressed private sector, and to lay the groundwork for a resumption of growth.

First of all, I would emphasize, as others have done, that fiscal adjustment is the cornerstone of the program. It is essential that the authorities meet the budget targets, which were significantly eased when the program was revised during its most recent review. However, the fiscal position looks extremely fragile, as the authorities have relied on one-time gains and have made no provision for the cost of the badly needed rehabilitation of the banking system and the complete disposal of the CSSPPA's holdings of substandard coffee. As far as the cancellation of arrears to the cotton parastatals is concerned, I share the doubts expressed in the staff paper and by other speakers about this treatment. Furthermore, as reported in the staff's statement, the delay in the preparation of the 1991 budget is a matter of grave concern at the present juncture, in view of the imperative need to increase revenue.

I am also concerned about the persistent failure to meet arrears targets, which were another cornerstone of the program. The domestic arrears target was missed at the time of the most recent review, while missed external arrears targets have generally been a feature of this review. There have also been delays in payments to the World Bank, and, as others speakers have noted, negotiations with commercial banks have not been concluded. Judging from Table 5 in the staff paper, Côte d'Ivoire will not meet even the revised projections for domestic or external arrears for the year as a whole. We might remind ourselves that the latest slippage in external arrears has not been due to exogenous factors; the main reason is a shortfall in external assistance resulting from the authorities' delay in meeting conditions for World Bank and African Development Bank agricultural sector adjustment loans. The staff statement also notes that the disbursement of the final tranche of the World Bank energy sector adjustment loan may be delayed as a result of the slow progress in the adjustment of petroleum prices. Domestic arrears are quantitatively much more significant, and their elimination is essential to help reactivate the banking system and increase tax receipts. In this respect, I was concerned to read on page 12 of the staff paper that the political backing does not exist to implement the new strategy for tackling delinquent accounts.

The authorities must clearly take steps to broaden the tax base. Revenue projections seem to depend partly on improvements in tax administration, which have not materialized in the past. Incidentally, I was struck and concerned by how frequently the word "delay" recurred in this section of the staff paper. Obviously, it remains important to improve the collection of taxes, but the authorities must also broaden the tax base, as the revenue yield is much too sensitive to changes in trade volumes.

It is essential that, as one or two other speakers have pointed out, the burden of adjustment should be shared by the public sector. I can commend the recent cuts in civil service staffing and the reduction in the number of ministries, but savings have yet to show up in a smaller civil service wage bill. It appears from Table 5 of the staff paper that total expenditure on wages and salaries will be unchanged in real terms this year, while other current and capital spending has been cut. Given the 5 percent fall in real GDP, therefore, it seems likely that the discrepancy between the private and public sectors is, if anything, actually growing.

The reform and restructuring of the parastatals also remains a priority. Many of these continue to be a financial burden on the economy. I might refer again to the delays by the CSSPPA in disposing of the substandard coffee and in following up on the World Bank's study. The Price Equalization Fund (CGPPGC), which maintains the price of staple products, should be an early target for reform. I am also concerned that many parastatals, including the soon-to-be-privatized electricity company are still not meeting their debt-service costs. Clearly, the authorities need to go much further in encouraging the private sector and in liberalizing prices and trade, in order to bring domestic costs in line with those in competitor countries.

In all, the authorities have made some progress in recent months, and we have certainly seen a marked shift in gear, compared with the very disappointing performance reported at the most recent review. However, we should recall that the present targets are not especially ambitious, reflecting the slippages earlier in the program, and it would be very worrisome if they were not achieved in full. The staff statement offers little encouragement on this score. Upon the expiration of the current stand-by arrangement, Côte d'Ivoire clearly will need to embark on another Fund program; it is therefore important--and, in fact, essential--that the new administration should commit itself to an altogether more radical program to address the remaining fundamental imbalances.

Mr. Mwananshiku said that, in the midst of the profound political change taking place in Côte d'Ivoire, it was encouraging to note the commendable efforts made thus far by the Ivoirien authorities in implementing structural reforms and, in particular, the continuation of their commitment to tackling the country's economic and financial problems. According to the staff paper, virtually all performance criteria for the third quarter of 1990 had been met, with the exception of the criterion for external payments arrears.

The measures taken by the authorities in June 1990 to widen the tax base and thus increase the sources of revenue were welcome, Mr. Mwananshiku continued. Furthermore, as Mr. Santos noted in his opening statement, the earlier than expected creation of new tax inspectors' offices and auditing teams would help the authorities to improve tax compliance and collection. However, despite the measures to broaden revenue and control expenditures that had been undertaken by the authorities, the fiscal deficit remained large. Therefore, the authorities should further strengthen their fiscal policies.

The steps already undertaken by the authorities to reinforce the financial sector and those envisaged for 1991 were also welcome, Mr. Mwananshiku commented, as those measures would undoubtedly play an important role in the country's structural adjustment effort. The planned rehabilitation of the ailing banks would induce the establishment of a sound banking system able to support adequately the envisaged growth in economic activity.

Despite the significant deterioration in the country's terms of trade over the past year--particularly in the coffee and cocoa sectors--a welcome improvement was reported in the external sector, Mr. Mwananshiku said. Reduction of the debt service had been another factor contributing to that good performance. However, a large financing gap persisted that could be addressed only by additional concessional aid and debt rescheduling over the coming years, on terms consistent with the country's payment capacity. Moreover, the actions envisaged by the authorities to find a solution to the problem of the commercial bank debt went in the right direction; it was also encouraging to learn from Mr. Santos's opening statement that the arrears on the nonrescheduled debt were in the process of being eliminated.

With respect to structural reform, substantial progress had already been made in the public enterprise sector, Mr. Mwananshiku observed. A greater role for the private sector in that area could help to improve economic efficiency and reduce the burden on public finances.

The measures taken thus far, as well as the commitment shown by the authorities to proceed with the additional measures that could lay the groundwork for economic growth deserved the support of the Board, Mr. Mwananshiku concluded. He supported the proposed decision.

Mr. Thorláksson said that he did not have much to add to the comments of the other speakers. However, he wished to reiterate the concern that his chair had expressed at the previous Board meeting on Côte d'Ivoire's program; those concerns had only deepened after the latest staff statement.

Côte d'Ivoire had met practically all the end-September 1990 performance criteria, Mr. Thorláksson noted. However, the better than anticipated--under the program--trade balance in 1990 was due partly to the reduction in the stocks of export goods. The fiscal balance had been positively affected by the resolution of public sector arrears, which, to his authorities' surprise, had been classified as revenue. Without that and other one-time effects, it would have been more difficult to meet the performance criteria. Keeping the program on track in the future would therefore be difficult, as the staff had also indicated.

Despite adherence to the targets of the economic program, the external situation of Côte d'Ivoire would continue to be most problematic, Mr. Thorlákssson considered. Financing requirements would not decline over the next few years, external debt would accumulate further, and the debt-service ratio would remain high. Even when fully implemented, the program would not seem to have much improved the economic situation in Côte d'Ivoire. With the slippages at the beginning of the year and--according to the recent staff statement--the slippages that were foreseen, and until a strong medium-term adjustment program was in place, his authorities doubted that the Fund should continue its financial involvement in Côte d'Ivoire was. It was therefore only with strong reservations that he could support the proposed decision.

Mr. Kabbaj said that he agreed with the conclusion in the staff appraisal and supported the proposed decision. He wished to commend the authorities for their steadfastness in implementing a very difficult program in an external environment that was highly unfavorable for Côte d'Ivoire's main exports. Indeed, the staff paper indicated the continuing decline in GDP and the sharp deterioration in the terms of trade over the past four years. Despite those overwhelming exogenous factors, and in the face of unusually high external debts, the authorities were nonetheless striving courageously to overcome their problems.

The lack of any clear prospect for improvement in the medium term was a cause for concern, Mr. Kabbaj continued. There were limits to the requirements of adjustment--however well justified those requirements might be. The international financial community should therefore do more to assist Côte d'Ivoire. In that regard, commercial banks should accelerate negotiations with Côte d'Ivoire on the size of debt and debt-service reduction, and official creditors should follow the example of France by reducing the burden of servicing the official debt.

Mr. Filosa made the following statement:

> I am pleased to commend the Ivoirien authorities for the significant progress made, after a difficult start, in the implementation of their economic policies under the stand-by arrangement. Based on the fact that most of the performance criteria have been observed, with one minor exception, I give my full support to the proposed decision.

I would first like to commend the authorities for the priority that they have attached to the clearance of domestic payments arrears while regretting the way in which the cancellation of the arrears to the CIDT has been handled. In the context of tax revenues, I would make two points: first, greater effort is required to quickly implement changes in the tax administration, in order to proceed further with fiscal consolidation; and, second, the fixity of energy consumer prices is inconsistent with both the need to further reduce the fiscal deficit and the policy advocated by the Fund of effectively allowing the pass-through of international oil prices. Given the urgent need to design and implement a strong fiscal package, the Ivoirien authorities should reconsider their policy in this field. This recommendation, incidentally, should not be seen as a judgment on the level of oil prices; it is meant to underscore the rather paradoxical fact that oil revenues in Côte d'Ivoire are countercyclical vis-à-vis international prices.

Structural policy is an area in which sufficient progress has not been made. The staff paper gives a detailed account of the inability of the Ivoirien authorities to meet the criteria required for obtaining the financial support of various international institutions. While the difficulties involved are understandable, the authorities seem to have overlooked the adverse consequences that these delays can have on the country's potential growth, on its ability to close the still large external financing gap--which continues to pose a serious financial assurance problem--and on the solution to the external arrears problem.

In this respect, although I welcome the steps taken to facilitate the involvement of the banks in the privatization process and to work out an agreement with the banks on a reduction in Côte d'Ivoire's debt and debt-service payments, the fact remains that the solution to the country's structural and financial problems depends heavily on its ability to design and implement a comprehensive medium-term structural adjustment program that would include the provision of foreign financial assistance. Otherwise, Côte d'Ivoire will be forced to find a solution to its problems mainly through the painful compression of growth that restrictive fiscal and monetary policies inevitably imply.

This leads to a discussion of the appropriate balance among the various macroeconomic policy instruments that Côte d'Ivoire is presently using. My point here is that the rigidity of its nominal exchange rate produces three major shortcomings. First, it is a powerful obstacle to balance of payments adjustment, which aggravates, for the Fund, the financial assurance problem. Second, it puts a disproportionate burden on fiscal, monetary and wage policies, thereby increasing the output losses of the stabilization effort. Indeed, the lack of flexibility of the exchange rate might well force Côte d'Ivoire into a permanent economic slump. Third, the lack of competitiveness seriously hinders a successful structural adjustment by discouraging the growth of the economy's private sector.

In this respect, it is worth observing that, from 1985 to 1988, the nominal and real effective exchange rates have appreciated by almost 40 percent and 30 percent, respectively. From mid-1988 to the present, the aggregate index of competitiveness has remained broadly constant while the nominal effective exchange rate has appreciated significantly. Despite these facts, the staff rather surprisingly concludes on page 19 of the paper that "...developments in the bilateral real exchange rates do not seem to have hindered nascent efforts to diversify exports and open new markets." Even accepting the possibility that this might have been true in recent years, when the real exchange rate remained relatively constant, the staff conclusion seems to refrain from taking note of the fact that a real devaluation would have eased the deflationary impact of other policies on real output and would have significantly reduced the current account deficit.

In the present circumstances, Côte d'Ivoire is forced to compensate for the adverse effect that its exchange rate rigidity has had on the balance of payments by increasing export volumes--despite the long-term loss of competitiveness--and by compressing imports. The staff paper makes clear that Côte d'Ivoire has been able to reduce its trade deficit in the very year in which it has been hit by adverse developments in the terms of trade. In the area of exports, Côte d'Ivoire has had to follow the somewhat paradoxical policy of improving its sales abroad by further worsening its already falling export price, in the hope that these voluntary additional export price reductions will allow an improvement of total revenues by increasing the volume of exports. Côte d'Ivoire has succeeded in this strategy.

Furthermore, as Mr. Prader has noted, the staff paper's conclusions seem at variance with those reached in the paper reviewing the CFA arrangements. The assertion is made on page 15 of that paper that "the real depreciation of the currencies of neighboring countries vis-à-vis the CFA franc is expected to have contributed to the deterioration in the external position of zone members."

> This chair wishes to go on record on this issue. In the light of the important and pervasive shortcomings in this exchange rate arrangement, it would be appropriate to have in the future a more explicit and in-depth analysis of the effect of the CFA franc arrangement on the individual economies that have embarked on stabilization-cum reform programs. I believe that this analysis should play a greater role in shaping the policy advice given to African countries by the Fund.

Mr. Prader said that, before Mr. Filosa had spoken, he had begun to feel that the Board had resigned itself to the fact that one of the most obvious factors affecting the Ivoirien economy--the exchange rate--was apparently "off limits" for discussion. As Mr. Filosa had noted, the real exchange rate appreciation of 30 percent during the late-1980s--clearly portrayed in Chart 1 of the paper--called for a more in-depth analysis from the staff.

Mr. Wright considered that it would be distressing if the Board's relative inattention to the question of Côte d'Ivoire's exchange rate policy were interpreted as a sign of its own resigned attitude to the subject. While not discussing the subject in as much detail as Mr. Filosa, he had for his part reminded the Board that Côte d'Ivoire's exchange rate arrangement imposed a great burden on the domestic economy and introduced a rigidity into the adjustment process.

The review of a stand-by arrangement had not seemed to be the appropriate occasion for a thorough examination of exchange rate policy, Mr. Wright continued. The understanding had been reached in the discussion on the CFA franc--and in more general discussions on exchange rate issues--that the consideration of a new program for a country provided the proper setting for a more detailed evaluation of a country's exchange rate arrangements.

Mr. Dai said that he commended the Ivoirien authorities for the satisfactory results achieved under the stand-by arrangement, despite a very difficult economic and social environment. The program was broadly on track, and all performance criteria for end-September 1990 had been met, except for a small overshooting of the limit on external payments arrears. Despite the heavy pressure on Côte d'Ivoire because of adverse factors, such as the increase in oil prices and the shortfall in external financing, the basic objectives of the program for the year as a whole would be attained.

He endorsed the staff's appraisal and recommendations, Mr. Dai stated. The authorities had made great efforts to undertake structural reforms in such diverse areas as the agricultural, energy, water supply, and public enterprise sectors, and in the field of microeconomics. The substantial progress that had been made through those endeavors was welcome. The staff had rightly noted that some of those long-awaited reforms had proved to be more complex than initially envisaged, and, given the recent political changes, more time would be required before the authorities could move ahead quickly and forcefully. However, it should be emphasized that the key element in the structural reform process was to raise the level of productivity and efficiency in the public enterprises and the various sectors.

The authorities had successfully implemented the adjustment program and had shown a strong determination to pursue vigorously those efforts in the coming years, Mr. Dai considered. Therefore, the authorities deserved the continued support of the Fund; he joined the previous speakers in supporting the proposed decision.

Mr. Goos said that he applauded the new Government's impressive adjustment performance, which constituted a welcome departure from earlier efforts. He broadly agreed with the staff appraisal and with the comments of previous speakers. However, the more fundamental concerns that his chair had expressed during the previous discussions of Côte d'Ivoire's adjustment programs remained. The sustainability of the adjustment effort was still a cause for concern, reinforced by the question of the appropriateness of the exchange rate arrangement, by the renewed accumulation of external arrears--especially the intermittent accumulation of arrears vis-à-vis the World Bank--and by what previous speakers had called the cosmetic accounting practices that the authorities had used to meet the fiscal targets.

The gloomy prospect for medium-term viability in Côte d'Ivoire was the cause for his chair's other fundamental concern, Mr. Goos remarked. No improvement on that front was visible. Moreover, the large gaps in financing assurances that existed both during the program period and beyond provoked concern. The recent discussions with the banks had been unsuccessful; even worse, a reading of the staff documents conveyed a very bleak picture of the outlook for progress on that score, since the banks were continuing to insist on special Paris Club concessions as a condition for their own engagement in debt reduction and debt-service reduction operations. From that perspective, a strict adherence to the guidelines for financing assurances would preclude the further disbursement of Fund resources. In that situation, and in order to improve the prospects for normalizing bank relations, one would expect that the authorities would be eager to resume interest payments to the banks as soon as possible.

With respect to the possibility for a follow-up arrangement to the current stand-by arrangement and the specific modalities of such a program, Mr. Goos concluded, previous speakers had rightly suggested that the matter should be discussed in the context of the country's program performance during the next few months. Progress in obtaining the necessary financing assurances would also be critical. For the time being--and bearing in mind the indications in the staff statement that the fiscal target for the end of 1990 might not be reached--it seemed highly doubtful that a basis had already been created for meeting the demanding requirements of an extended Fund facility arrangement.

Ms. Hansen said that she agreed with other speakers that the staff's description of the effect of exchange rate movements in Côte d'Ivoire on competitiveness was rather scanty. Moreover, it was somewhat misleading to imply that firm conclusions on the relationship between exchange rate movements and competitiveness could be drawn on the basis of developments in 1990 alone.

Mr. Yoshikuni commented that, on the issue of exchange rates, he associated himself with Ms. Hansen's position.

Mr. Iqbal said that, in his statement, he had tried to emphasize that the level of oil prices could not be separated from the change in oil prices, especially if, as in Côte d'Ivoire's case, the current price level was substantially higher than that prevailing in the world market. In fact, by resisting any further changes in oil prices, the Ivoirien authorities had reduced the scope for any adjustment in the use of resources that the higher oil prices might have triggered.

The concept of a pass-through of oil price increases only had meaning in relation to the subsidies--if any--that affected oil prices, Mr. Iqbal continued. Any net revenue from those price increases should be viewed in the context of the overall macroeconomic framework, in which all possibilities for raising revenue would be considered, and oil would not be seen solely as a captive base for taxation.

Mr. Filosa said that it was not the Fund's business to determine the appropriate price for oil in Côte d'Ivoire. Like other prices, the price of oil had to be allowed to fluctuate--downward as well as upward. Despite the fact that the domestic consumer price for oil was fixed at a higher level in Côte d'Ivoire than in neighboring countries, the operation of a flexible "petroleum price differential" mechanism was actually creating a reduction in revenue--and at a time when the Government needed to improve its fiscal performance. Therefore, the Government's policy of fixing the nominal domestic oil price seemed not only to run counter to the Fund's guidelines, but also to be rather unwise. In that context, the proposals recently made by a World Bank team to reform the country's oil pricing policy were welcome.

The staff representative from the African Department said that it would have been preferable if the arrears transaction with CIDT had been classified differently; in that event, the staff would have been prepared to recommend a waiver of the performance criterion. The transaction had been handled as the authorities had proposed, primarily because there were no clear-cut Government Finance Statistics rules for classifying such dealings with public enterprises.

As had been noted earlier, Table 5 was very complex, as some of its transactions complied with the rules for public accounting while others met the rules for private accounting, the staff representative continued. Because of the special conventions that had gradually been developed to deal with the public enterprises' finances, Table 5 could not really be considered a budget. For example, in considering the transactions of a public enterprise like the CSSPPA, one had to keep in mind that its legal commitments were much higher than its actual disbursements, as many of those commitments would never be actualized. It would not be appropriate to change those conventions and reclassify those transactions in the middle of a stand-by arrangement; however, the staff's heightened awareness of the impact of public enterprise transactions on domestic arrears would lead to a more transparent reporting of all such operations in the future.

Both the staff paper and the staff's statement reflected the uncertainties surrounding the revenue projections and the attainability of the overall fiscal targets for 1990, the staff representative remarked. At the same time, the point had been made that the slippage in revenue performance could be offset by greater than expected savings in expenditure. The total amount saved on the expenditure side was not known at present, as the authorities had not yet consolidated all of the savings realized during the first nine months of 1990; therefore, there was still room for optimism about the final fiscal outcome.

The staff paper had not referred to an unusually large number of checks pending at end-September 1990, the staff representative from the African Department commented. However, it was the practice in Côte d'Ivoire--a good practice, in the staff's opinion--for the central bank to deduct from the statutory advance any checks issued by the Treasury that had not been cashed. That float--whose value could fluctuate between CFA 6 billion and CFA 12 billion, depending on the volume of transactions during the final week of each month--was implicitly included in the total amount of domestic arrears of the Central Government. However, that classification was not technically correct, as holders of those checks could cash them at any time.

Mr. Santos said that the Board's recognition of the authorities' strenuous efforts to implement their financial stabilization and structural reform program in extremely difficult economic, financial, and political circumstances was gratifying. His authorities wished to thank the Executive Board for the support that had been extended to Côte d'Ivoire.

Some Directors had expressed their concern that the three-month extension of the revised budget for 1990 might reduce the pace of fiscal reform, Mr. Santos noted. However, it should be recalled that, at the time of the introduction of the new Ivoirien economic team on November 30, 1990--just three weeks previously--it had been announced that the size of the Government would be reduced by one third. In those circumstances, more time was needed to incorporate the Government's new structure and priorities into the budget and to allow a genuine political consensus to be cultivated. The concerns that had been expressed should prove groundless, therefore, as the budget extension should serve to improve the quality of economic management in Côte d'Ivoire and maintain the country on the path that it had started toward financial stabilization and structural reform.

One aspect of Mr. Wright's intervention was worthy of further comment, Mr. Santos remarked. The CFA franc arrangements had been discussed in the Board in November 1990, and the staff had been instructed to intensify its research into the effects that those arrangements might have on the medium-term prospects of the franc zone countries; however, he did not recall the Board arriving at any understanding or agreement more specific than that.

The Executive Board then took the following decision:

1. Côte d'Ivoire has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Côte d'Ivoire (EBS/89/212, Sup. 2, as amended by Executive Board Decision No. 9473-(90/99), adopted June 22, 1990), and paragraph 45 of the Memorandum attached to the letter dated May 31, 1990 from the Minister of Economy and Finance and the Governor of the Central Bank of West African States.

2. The letter dated November 20, 1990 from the Prime Minister and the Minister of Economy and Finance shall be annexed to the stand-by arrangement, and the letter dated October 19, 1989 (with attached Memorandum on Economic and Financial Policies), together with the supplementary letter dated November 14, 1989 (with attached Table 1) from the Minister of Economy and Finance and the letter dated May 31, 1990 (with attached Memorandum and tables) shall be read as supplemented by the letter dated November 20, 1990.

3. The Fund decides that the second review contemplated in paragraph 4(b) of the stand-by arrangement for Côte d'Ivoire has been completed, and that notwithstanding paragraph 4(a)(vi) of the arrangement, Côte d'Ivoire may proceed to make purchases under it.

Decision No. 9617-(90/179), adopted
December 21, 1990

3. SUDAN - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered a staff paper on the further review of Sudan's overdue financial obligations following the declaration of its ineligibility to use the Fund's general resources effective February 3, 1986 (EBS/90/211, 12/12/90).

Mr. Mwananshiku said that the Sudanese Government had adopted the current recovery program while recognizing the enormity of the tasks--including dealing with the arrears problem--facing the country. Despite other pressing claims, in particular the armed conflict in the southern part of the country and the persistent drought, the authorities had intended to divert a sizable share of their extremely meager resources to honor their obligations to the Fund. Specifically, the authorities had been sincere in their determination to remain current in their payments to the SDR Department and to make additional payments of not less than $0.4 million per month; they had also left open the possibility of increasing that amount after the foreign exchange situation improved.

However, Mr. Mwananshiku continued, the special circumstances that Sudan had been facing since the onset of the Middle Eastern crisis had made it very difficult for the Government to keep its promise and seek a satisfactory solution to the arrears problem. The successful implementation of a comprehensive adjustment program had also proved impossible. The Middle Eastern crisis had further exacerbated the already highly fragile external situation through bigger oil bills, reduced worker remittances, and the curtailment of aid. The foreign exchange reserve situation had become so tight that the Government was finding it difficult to pay for the importation of even urgently needed basic necessities. Those added constraints were severely thwarting the Government's effort to meet its financial obligations.

The authorities would continue to persevere in their efforts to restore stability and restructure the economy, Mr. Mwananshiku stated. They also realized that they could not afford to be unmindful of their obligations to creditors--the Fund in particular. Their inability to make promised payments should not be construed as unwillingness on their part, but as the result of a foreign exchange constraint that had been more severe than expected.

The authorities were hopeful that their dialogue with the Fund would continue, and that the usual constructive exchange of views would take place during the forthcoming Article IV consultation discussions, Mr. Mwananshiku remarked. They were also hopeful that the Executive Board would continue to show understanding and forbearance in dealing with the arrears problem.

Mr. Ichikawa said that he could generally support the staff's assessment. His chair was extremely concerned about the lack of progress in Sudan and felt that the authorities should strengthen their cooperation with the Fund. Like the staff, however, he welcomed the authorities' invitation to hold discussions for the 1991 Article IV consultation. He supported the proposed scheduling of the next review of Sudan, as explained in the staff paper.

Some questions remained with regard to the timing of the initiation of the procedure for compulsory withdrawal from the Fund, Mr. Ichikawa considered. Naturally, such an action would not be welcome; it would be very unfortunate if that procedure had to be initiated. However, according to the most recent Board decision on that subject in July 1990, it was understood that, unless Sudan had made clear progress, the procedure for compulsory withdrawal would have to be initiated by April 23, 1991. In that connection, he wondered whether that decision could be made in conjunction with the next review of the Sudanese economy--the Article IV consultation scheduled for February 1991--or whether it would have to be delayed until the completion of another, separate review. In his view, unless progress was clearly evident by the time of the next review--whenever that might be--the Board would have to initiate the consideration of the withdrawal procedure in accordance with both the Articles and the schedule agreed under the strengthened arrears strategy.

Mr. Prader said that the staff paper certainly did not provide any reason for joy or comfort; on the contrary, it was unfortunate to note that, with the passage of time, the country's situation and its relations with the Fund were deteriorating. Sudan's intention to make symbolic payments to the Fund on a monthly basis had been discontinued after September 1990, and it had fallen into arrears on its obligations to the SDR Department. Moreover, those events had occurred in the context of patent discrimination against the Fund, as payments to other creditors had been continued on a large scale.

The same conclusion had to be drawn from the poor performance under the National Economic Salvation program that had been announced in July 1990, Mr. Prader continued. In the context of quite pervasive price controls, the Government's fiscal and monetary policies had resulted in a "repressed" rate of inflation of 80 percent.

Such a state of affairs could have warranted the inclusion of stronger language and even additional measures in the decision proposed for the Board's consideration, Mr. Prader observed. Nevertheless, the reasoning put forward by the staff for taking a more lenient approach was acceptable. In any event, the Board's decision to consider the initiation of further procedures under the strengthened arrears strategy within a period of nine months ending in late April 1991 should not be seen as an obstacle to taking any actions that might be necessary before that date.

The authorities' invitation to advance the Article IV consultation discussions to February 1991 was a positive signal, Mr. Prader considered. Moreover, the proposal to conduct both the Article IV consultation and the fourteenth review of Sudan's overdue financial obligations before or no later than April 23, 1991 was welcome. That proposal offered an additional advantage, which had not been spelled out in the staff paper: the Fund's Articles should have been revised by that date, thereby providing the Board with a better arsenal for attacking the arrears problem. Needless to say, it was to be hoped that additional measures of that type would not be needed in the case of Sudan.

Mr. Finaish made the following statement:

> This is the first review of Sudan's overdue obligations to the Fund since the country was declared noncooperative. The Board's frustration with the lack of progress toward a resolution of Sudan's overdue financial obligations to the Fund is understandable in view of the protracted period of existence of such arrears.
>
> There can be no doubt that deficient policies have been at the root of many of the economic problems facing Sudan today. It should be just as evident, however, that Sudan has suffered from a series of natural and other disasters that have caused the economic situation to deteriorate far more than could have been caused by bad policies alone. Since our most recent review of Sudan's arrears, these conditions have, unfortunately, continued to deteriorate, and the Middle Eastern crisis has made a bad situation even worse. Moreover, there are alarming reports that Sudan now stands on the verge of a major famine. For example, the Director of the U.S. Agency for International Development (U.S. AID) in Khartoum, Dr. Frederick Machmer, who held the same post in Ethiopia during its 1984-85 famine, was quoted on December 19, 1990 in the New York Times as follows:
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>> It is no longer a question of preventing deaths by starvation in the Sudan in 1991. It is now a question of whether those deaths will number in the thousands, the *tens of thousands, the hundreds of thousands, or even in* the millions. I am willing to risk the point of view that, as of this date, it is all but certain that hundreds of thousands of innocent people in the Sudan are going to die of starvation in 1991.
>
> Given Dr. Machmer's experience as U.S. AID Director in Ethiopia during its 1984-85 famine, his statement has especially grave implications. It would be useful if the staff could share with us any information that it might have

received on this matter from either the Food and Agriculture Organization of the U.N. (FAO) or other sources.

Although we are all aware of the adverse circumstances facing Sudan, I believe that it is useful and necessary to recall them, in order to put our discussion in perspective and to help us in forming a judgment as to which expectations are realistic in Sudan's case and which are not. There can be no doubt that a major effort needs to be mounted by the authorities to deregulate the economy and reform the exchange, trade, and pricing systems. Specifically, the staff has pointed to several measures that have been taken to liberalize trade and prices; we would encourage the authorities to build upon these policies and formulate a credible and comprehensive medium-term reform plan.

However, we continue to believe that, for such a program to have a chance of being implemented successfully, several conditions have to be met. First, a resolution of the armed conflict in the southern part of the country, which continues to drain the country's scarce resources, is needed. Second, some way of mitigating the immediate humanitarian needs, including those associated with the problem of refugees, needs to be found. This would entail increased financial aid and humanitarian assistance from the international community, particularly food aid. Third, for a comprehensive adjustment and reform program to be successfully implemented, the requisite financing has to be available. Unfortunately, the prospects for fulfilling these conditions are dim at present. In my view, therefore, it would be too optimistic to expect the formulation and successful implementation of a comprehensive program, at least not in the sense in which this term is generally used in the Fund.

Meanwhile, the Fund should continue to work closely with Sudan until these conditions are satisfied. If the ultimate objective is to find a viable plan for the settlement of Sudan's arrears, the magnitude of these arrears and the present conditions in the country dictate that this will be a difficult and protracted process. In my view, however, there is no viable alternative.

The authorities, for their part, must intensify their efforts to put Sudan's economic house in order. We certainly hope that, on the occasion of the Board's next review of Sudan's overdue financial obligations to the Fund--which will take place concurrently with the Article IV discussion that the authorities have agreed to advance to February 1991--there will be evidence of such efforts.

> In Table 2 of the staff paper, which shows Sudan's actual debt-service payments on medium- and long-term loans, it is indicated that, during the July-October 1990 quarter of the 1990/91 fiscal year, Sudan made a payment of $21.5 million to Libya. I wonder whether the staff could confirm that this payment was indeed for either a medium- or long-term loan. If, as I suspect, it was a repayment of a short-term trade or supplier credit for oil, it should be excluded from the table. Indeed, Footnote 1 of Table 2 indicates that short-term trade credits, such as the payment to China of $25.5 million in 1989/90, should be excluded from the table.

Mr. Bossone said that, after the many reviews following the declaration of Sudan's ineligibility, it was regrettable to have to again witness the ongoing deterioration of the social and economic conditions affecting the Sudanese population. Even more frustrating was the absence of signals that might indicate a willingness on the part of the Government to undertake the radical changes needed to re-establish a normal situation. Indeed, the uncooperative approach that the Government was deliberately pursuing with the Fund was clear evidence to the contrary.

The authorities of his constituency, however, fully supported the Fund in its resolve to remain ready to assist the Sudanese Government in the efforts that must eventually be taken to formulate an economic reform program, Mr. Bossone considered. In that connection, his chair welcomed the opportunity that the next Article IV consultation with Sudan would provide to re-evaluate the overall situation and to assess the policy intentions of the authorities. It was to be hoped that, in that context, positive results could be generated. The Sudanese authorities should exploit that opportunity to maintain their ties with the international financial community, without whose support the country would suffer extremely dire consequences. He supported the proposed decision.

Mr. Noonan made the following statement:

> The Board sympathizes with the plight of the Sudanese people. The staff paper portrays a grim picture of their economy. That picture is the outcome of years of mismanagement by the authorities, who have thereby blighted the economic prospects of their people for many years. On top of that, the Sudanese authorities have demonstrated an inability to bring to a peaceful and just conclusion the civil conflict and social unrest that have prevailed for so long in that unfortunate country. These largely man-made problems have been compounded by adverse climatic conditions, which, for the second consecutive year, have led to a drought. Famine is once again a very real prospect for many of these people. It is against that background that we must make our decision today.

My chair supports the proposed decision. Two main considerations lead us to this conclusion. First and foremost is the likely effect of the decision on the behavior of the Sudanese authorities. In seeking to assess what that effect might be, it has been argued at previous meetings that, if prompt and firm remedial action had been taken in the past, Sudan's arrears would not be the problem that they are today. We will never know if that is true; however, we can all recognize now--as must the Sudanese that it is authorities--virtually impracticable for Sudan to resolve its arrears problems without the support of the international community. Even with that support, the resolution of Sudan's arrears problems will be extremely difficult. The strengthened cooperative strategy makes clear that the international community would stand ready to assist individual member countries that are willing to help themselves; regrettably, and notwithstanding the formal declaration of noncooperation in September 1990, the Sudanese authorities have done little to demonstrate that they are willing to help themselves. They have done even less to cultivate the support of the international community, despite the considerable sympathy existing within that community for the plight of the Sudanese people. Therefore, we are not sanguine that any decision today--irrespective of its interpretation as either strong or weak--will change the behavior of the Sudanese authorities.

Nevertheless, my chair is willing to support the proposed decision, which, in accordance with the strengthened arrears strategy, defers consideration of the initiation of procedures until after the forthcoming Article IV mission to Sudan. We do so, first, to ensure that no stone will be left unturned in our efforts to have Sudan's arrears problems resolved. The fact that the Sudanese authorities have agreed to hold the 1991 Article IV consultation in February 1991, several months earlier than the normal schedule, suggests that there may be a glimmer of hope that they are willing to join with the staff in constructively seeking a solution to this extremely difficult problem. We certainly would wish to give them every opportunity to do so in a spirit of cooperation rather than duress. Second, we wish to ensure that both the Sudanese authorities and the members of the international community know that the option of cooperation is still unambiguously open to Sudan, and that there is no suggestion of eagerness on the part of the Fund's members to initiate further remedial action. A failure by the Sudanese authorities to respond positively to these signals would make it very difficult for this chair to interpret their position as other than one of intransigent rejection of the Fund's overtures.

The second consideration that has led to our support for the proposed decision is our sensitivity to the potential misrepresentation of any action on the part of the Fund. When famine looms, we believe that it is incumbent on the Fund to ensure that demands for the repayment of arrears neither compete with, nor run the risk of being represented as competing with, demands for resources needed for humanitarian purposes. We fear that this may be difficult to do in practice; accordingly, we would urge that the problem of Sudan's arrears be pursued with care and sensitivity.

Mr. Fernando said that the proposed decision on Sudan might perhaps be interpreted as a deferment of action. However, the decision that the Board had taken in July 1990 with respect to the country's overdue obligations had specified that, if necessary, further procedures consistent with the arrears strategy should be initiated within nine months of July 23, 1990--namely, by April 23, 1991. Therefore, approval of the decision currently under discussion should not be viewed as a deferment of action; any decision taken by the Board before April 23, 1991 to initiate further procedures against Sudan--whether made in the context of the upcoming Article IV consultation or not--would be consistent with the deadline set in the July 1990 decision.

Mr. Mojarrad said that he agreed with Mr. Finaish that, in Sudan's unfortunate current circumstances, a continuation of the close cooperation between the country and the Fund in seeking a solution to the arrears problem was the only viable alternative. He wondered whether Sudan was receiving financial assistance from any donors besides the African Development Bank.

Ms. Creane stated that it was extremely unfortunate that events were continuing to propel Sudan toward a deterioration in its relations with the Fund. At the time of the review in July 1990, it had been hoped that the Board's action would energize the authorities to make greater efforts to accelerate the implementation of the necessary policy measures. Regrettably, however, the authorities had not addressed the country's economic situation with the requisite sense of urgency. The extremely negative impact of a series of developments beyond the authorities' control, particularly the adverse weather conditions, had to be recognized; nevertheless, the authorities' response to those developments had been far from adequate. Moreover, Sudan's record in meetings its obligations to the Fund had not improved, as the efforts begun by the authorities in July 1990 to make small monthly payments had quickly been discontinued.

In those circumstances, unfortunately, there did not seem to be any alternative to continuing with the timetable that had been established for the strengthened arrears strategy, Ms. Creane considered. At the same time, she could endorse the staff's suggestion to move the

Article IV consultation forward to February 1991; that would provide a better opportunity to discuss the potential for economic reform and, as other speakers had pointed out, to impress on the authorities the magnitude of the economic emergency facing them. Optimistically, it might also be hoped that those discussions would convince the authorities to reactivate their efforts to resume active cooperation with the Fund.

Mr. Serre said that he fully endorsed the conclusions presented in the staff paper. His authorities were deeply disappointed by the current turn of events; the present situation did not facilitate the implementation of measures to address even the basic humanitarian needs in Sudan. Mr. Finaish, Mr. Bossone, and other speakers had rightly emphasized that, in those circumstances, the Fund should seek to maintain its ties with Sudan. He supported the proposed decision.

The staff representative from the Middle Eastern Department said that, according to the recent FAO report on Sudan, the current crop was estimated at just over two million tons--24 percent below the average, and about one third less than the domestic requirement. The fact that it was the second successive bad harvest accentuated the seriousness of the crop failure. Food stocks had reached dangerously low levels, and the FAO report called for an immediate and major relief effort to deal with the food shortages expected in virtually all parts of the country.

The Government had accepted the conclusions of the FAO report and was planning to appeal for food aid and to increase the volume of commercial food imports, as well as to improve food distribution, the staff representative noted. However, even before the prospect of famine had arisen, the magnitude of the adjustment facing Sudan had been enormous; obviously, the widespread suffering and starvation resulting from the famine could only worsen an already serious situation. It was very difficult to anticipate whether those developments would spur the authorities to adopt policy reforms or, given the absence of the necessary external support, merely intensify their perception of the situation's hopelessness. The staff would undertake a more thorough review of the food situation and the policy responses of the authorities during the next Article IV consultation.

It was not clear whether Sudan's debt-service payments to Libya should be included in the table on medium-term debt, the staff representative commented. The staff believed that those payments had been related to oil loans, some of which had been made under medium-term maturities. The matter would be investigated in greater depth during the Article IV consultation discussions in February 1991.

In addition to aid from the African Development Bank, the staff representative from the Middle Eastern Department noted, the authorities were receiving multilateral assistance from other sources, including, inter alia, the World Bank, which was continuing to make disbursements under its existing IDA commitments. Moreover, Sudan still had access to some bilateral assistance, such as oil credits from Libya.

The staff representative from the Treasurer's Department said that the staff had not meant to propose that a separate review of Sudan's overdue financial obligations should be held immediately after the completion of the Article IV mission. Rather, the staff had intended that the Board should discuss the Article IV consultation and the review of overdue obligations at the same time. In light of the current mission schedule, that discussion would probably take place near the deadline set by the Board's July decision of April 23, 1991.

Mr. Fogelholm stated that he shared the concern that previous speakers had expressed. Time was running short, and, as the staff had noted, the effect that the famine could have on the scope of the measures that the authorities could implement was troubling. Moreover, according to the staff paper, the authorities were not implementing the right policies; on the contrary, they were making the same mistakes as before and moving in altogether the wrong direction. It seemed as if the authorities were not listening to the Fund's advice at all. In that context, perhaps the staff could comment on the nature of its working relationship with the authorities and the possibility that the Article IV consultation could lead to meaningful results.

Mr. Fernando said that he agreed that the environment of famine added to the adjustment challenge.

The staff representative from the Middle Eastern Department said that, although the situation in Sudan was very difficult, the lines of communication with the authorities were open. The authorities were responsive to staff requests for missions, policy discussions, and information. However, they were far from agreeing with the policy adjustments proposed by the staff; furthermore, the authorities felt that those adjustments were meaningful only in the context of substantial external financial support. The question of the timing of donor support had been a stumbling block, as the authorities had tended to view it as a prerequisite for the implementation of policy measures recommended by the Fund. The staff, on the other hand, had repeatedly emphasized that it was important for those adjustments to be made for their own sake. The point had also been made that Sudan had to establish a good track record and restore its credibility before any major donor support would materialize. Against that background, it was clear that the task of the forthcoming mission would not be an easy one.

The Chairman said that the famine and the civil war were not entirely unrelated to the Government's policies. The Fund would continue to discharge its obligations to Sudan to the fullest extent possible, although its room for maneuver would disappear shortly. Meanwhile, the Fund would do everything in its power to help Sudan avoid the extreme outcome to which it was heading. It had been attempting to persuade the authorities to create the conditions that would permit a massive influx of foreign support; to date, however, its efforts had been unsuccessful.

Mr. Mwananshiku said that, in the difficult economic circumstances facing Sudan, the Fund should not act until it had gauged the authorities' response to the forthcoming mission. Further consideration should be given to the problem on the basis of that response.

The Executive Board then took the following decision:

1. The Fund has reviewed further the matter of Sudan's continuing failure to fulfill its financial obligations to the Fund in the light of the facts and developments described in EBS/90/211 (12/12/90).

2. The Fund deeply regrets the continuing failure of Sudan to fulfill its financial obligations to the Fund, which places a financial burden upon other members and reduces Fund resources needed to help others. The Fund regrets that Sudan's payments to the Fund have remained modest since the last review, while Sudan has continued to make payments to other creditors. The Fund again urges Sudan to make full and prompt settlement of its overdue financial obligations to the Fund, and stresses that settlement of these arrears should be given the highest priority.

3. The Fund urges Sudan to adopt as a matter of urgency a comprehensive set of measures within the context of the cooperative approach that would bring about necessary economic adjustment. The Fund continues to stand ready to assist the authorities in support of efforts to formulate and implement a comprehensive adjustment program.

4. The Fund regrets that it has been necessary to issue and publish a declaration of noncooperation with respect to Sudan. The Fund further regrets that Sudan has not resumed active cooperation with the Fund in seeking a solution to the problem of its overdue financial obligations to the Fund.

5. The Fund will review the matter of Sudan's overdue financial obligations to the Fund again at the time of the 1991 Article IV consultation with Sudan or not later than April 23, 1991, whichever is earlier. In the absence of a resumption of active cooperation with the Fund by Sudan in seeking a solution

to the problem of its overdue financial obligations to the Fund, the Fund will give consideration to the initiation of further procedures in accordance with the strengthened arrears strategy not later than April 23, 1991.

Decision No. 9618-(90/179), adopted December 21, 1990

4. EXECUTIVE DIRECTORS

The Chairman bade farewell to Mr. Othman and Mr. Yoshikuni on the conclusion of their service as Alternate Executive Directors.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/178 (12/19/90) and EBM/90/179 (12/21/90).

5. LAO PEOPLE'S DEMOCRATIC REPUBLIC - TECHNICAL ASSISTANCE

In response to a request from the Lao authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/90/418 (12/17/90).

Adopted December 20, 1990

6. MEDICAL BENEFITS PLAN - REVIEW

The Executive Board approves the recommendations of the Committee on Administrative Policies to amend the Medical Benefits Plan with respect to financing of the Plan, the enrollee contribution schedule, and the payment of benefits, and to undertake a further study of the Plan, as set forth in EBAP/90/323 (12/14/90) and Supplement 1 (12/18/90).

Adopted December 20, 1990

7. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/90/326 (12/18/90) is approved.

APPROVED: September 20, 1991

LEO VAN HOUTVEN
Secretary