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Minutes of Executive Board Meeting 88/169

10:00 a.m., November 21, 1988

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

Executive Directors	Alternate Executive Directors
F. Cassell	C. Enoch
Dai Q.	
C. H. Dallara	C. S. Warner
	A. Rieffel, Temporary
J. de Groote	
E. T. El Kogali	L. Monyake
	P. E. Archibong, Temporary
	E. C. Demaestri, Temporary
	M. A. Fernández Ordóñez
	A. M. Othman
	S. K. Fayyad, Temporary
R. Ghasimi	O. Kabbaj
G. Grosche	
J. E. Ismael	E. Kiriwat
	L. E. N. Fernando
A. Kafka	
M. Massé	
	C. V. Santos
	I. A. Al-Assaf
J. Ovi	M. Fogelholm
	D. Marcel
	G. P. J. Hogeweg
	C. Y. Legg, Temporary
	F. E. R. Alfiler, Temporary
	S. Yoshikuni
	N. Adachi, Temporary
S. Zecchini	

L. Van Houtven, Secretary and Counsellor
R. Gaster, Assistant

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2. Senegal - 1988 Article IV Consultation and Request for Enhanced Structural Adjustment Arrangement . . . . Page 24
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Also Present

IBRD: L. Hinkley, Africa Regional Office. Administration Department: G. F. Rea, Director; H. O. Struckmeyer, Deputy Director; T. Cole, W. B. Hobbs, N. S. Jackson, J. B. Kaiser, P. J. McClellan, G. Vaughan, L. A. Wolfe. African Department: G. E. Gondwe, Deputy Director; J.-C. K. Brou, S. E. Cronquist, R. E. Daumont, Z. Ibrahim-zadeh, S. M. Nsouli, D. J. Ordoobadi. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director. Fiscal Affairs Department: M. Z. Yucelik. IMF Institute: C. Soumare, Participant. Legal Department: W. E. Holder, Deputy General Counsel; R. A. Munzberg, Deputy General Counsel; L. W. James, J. K. Oh, J. S. Powers. Secretary's Department: C. Brachet, Deputy Secretary. Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; B. E. Keuppens, G. Wittich. Special Advisor to the Deputy Managing Director: W. A. Beveridge. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: M. B. Chatah, A. G. A. Faria, K.-H. Kleine, M. Pétursson, G. Pineau. Assistants to Executive Directors: S. Appetiti, B. R. Fuleihan, P. Gorjestani, C. L. Haynes, J. Heywood, A. Iljas, J. M. Jones, K. Kpetigo, V. K. Malhotra, J. K. Orleans-Lindsay, L. M. Piantini, S. Rouai, J.-P. Schoder G. Serre, M. J. Shaffrey, Shao Z.

1. OFFICE SPACE - ACQUISITION OF PROPERTY

The Executive Directors considered a staff paper on financing the acquisition of Western Presbyterian Church property (EBAP/88/265, 11/1/88; and Cor. 1, 11/3/88). They also had before them a staff paper on the acquisition of the property and the enlargement of the Fund headquarters building (EBAP/88/197, 8/9/88; Cor. 1, 8/29/88; and Sup. 1, 11/8/88), and a staff paper containing additional background information on Fund space requirements (EBAP/88/257, 10/25/88).

The Managing Director made the following statement:

On August 31, 1988, the Executive Directors discussed a proposal (EBAP/88/197, 8/9/88) that the Fund seek to acquire the adjacent WPC property, so as to secure for itself the option to expand the headquarters building. The justification for the proposal is set out in detail in the paper, but the essential elements are as follows:

1. The Fund's premises in Washington are overcrowded, there is virtually no flexibility to accommodate shifts in demand for space or temporary needs arising from time to time, and no reserve for even minimal growth. We are currently accommodating some 300 personnel in leased space, and any further growth in personnel would also have to be accommodated in leased space.

2. A continued, and potentially increasing, reliance on leased space to house staff outside the headquarters involves material costs, inconvenience, and inefficiency. A much more convenient solution, and one that would be less costly over the longer term, would be to expand the headquarters building so that all the Fund's personnel can be housed in a single location, owned by the Fund.

3. Expansion of the headquarters is feasible only if we can acquire the adjacent property owned by the WPC, and arrange to relocate the church to another suitable site in the vicinity. With increasing development in the area, suitable alternative sites are becoming harder to find, but two such sites have been identified which may be available for purchase at the present time.

4. If the Fund chooses to take advantage of this present opportunity, it is believed that it could purchase the WPC property and relocate the church for an estimated cost of about $30 million. As owner of the whole block on which the headquarters building is situated, it would acquire construction rights which in other circumstances would require a substantially larger area of land. If the Fund does not take advantage

of this opportunity, it may effectively lose the option of expanding the headquarters in the future.

During the Board discussion on August 31, there was discernible support for the proposal as a sound and prudent business decision. There were two topics, however, which some Executive Directors felt needed further explanation and discussion before a decision was taken. One was an analysis of the extent to which functions being carried out by Fund personnel, particularly those employed on short-term contracts, seemed likely to be continuing in nature, with long-term implications in terms of space needs. The other concerned possible methods of financing the acquisition of the WPC property. The Administration Department recently issued EBAP/88/257 (10/25/88), which addresses the former topic and concludes that there is a continuing need for the functions being performed by the great majority of the Fund's personnel, including contractual personnel. On the second topic, the Treasurer's Department has issued EBAP/88/265 (11/1/88), which discusses methods of financing capital expenditure in a manner that would reduce or avoid the effect on the Fund's income and on the rate of charge. The paper proposes that the expenditures on acquiring the church property be held in suspense until the Executive Board decides whether to extend the headquarters building. At that time, it would consider the various ways of financing both the capital expenditures of acquiring the property and those of expanding the building, and reach a decision on the matter.

I want to emphasize in this connection that an authorization from the Board to acquire the WPC property and relocate the church does not necessarily imply that the Fund will proceed immediately to expand the building. A decision on this would be taken later, if and when the acquisition is successful. However, if we do not take steps to acquire the property now, when it is still possible to relocate the church at a reasonable cost, the Fund may have no choice but to incur far higher capital and administrative expenditures in order to accommodate its personnel in the years to come.

The issue takes on particular urgency because, according to our most recent information, other parties are actively pursuing plans to acquire and develop both the alternative sites which have been identified as suitable for a relocation of the church, in particular the site which seems most likely to attract the WPC. This indicates the need for early action by the Executive Board, if we are to avoid losing the present opportunity. Accordingly, I recommend that the Board adopt the following decision:

> Management is authorized to proceed with the acquisition of the Western Presbyterian Church property and to

take action to secure appropriate zoning and other municipal approvals on the basis of the plan outlined in Part IV of EBAP/88/197 (8/9/88), at a cost not to exceed $30 million, with the understanding that the Executive Board will be informed from time to time of the progress of major elements of the plan, and that management will request further consideration by the Executive Board in the event it appears that any particular element will deviate substantially from the plan in time or cost. The method used to account for the cost of the Western Presbyterian Church property and related expenditures will be that set out in paragraph 18 of EBAP/88/265 (11/1/88).

Mr. de Groote said that he was happy to support the Managing Director's recommendation, as it reflected a wise decision to take advantage of an opportunity that might not present itself under such favorable circumstances in the future. The purchase would be a sound investment of Fund resources since the Board would, at a later stage, examine whether, or to what extent, the Fund needed to occupy the building. It was also wise to postpone consideration of the eventual modalities for financing the operation.

Mr. Dallara made the following statement:

As you will recall, we were among those Directors who felt that some additional information both on staffing and financing would be important background for us in coming to grips with this issue, and indeed we find the staff papers on both subjects to be extremely helpful and informative. Nevertheless, they have not addressed all my authorities' concerns.

First, we are not entirely clear about the current capacity of the headquarters building. To be more specific, we have been told that the total capacity of our headquarters as designed should be about 1,935 people. Phase I, the original building, was to hold 1,600 people, and Phase II A, the last construction, was to hold 335. However, the current headquarters building now holds about 1,840 people, as we understand it. It would be of interest to us to ascertain more clearly than has been possible in informal discussions why there is a difference between the current occupancy of this building and the design capacity. There may well be legitimate reasons of which we are unaware, but the discrepancy is a matter that does seem to require further clarification.

Second, we still believe that the Fund should consider the possibility of housing some of our contractual employees outside the headquarters building. The information provided on contractual employees has been helpful and we are, of course, in no position to dispute the estimate that in the range of 70 percent of our current contractual employees are occupied in activities that reflect an ongoing need of the institution. Leaving aside for the moment the question of the number of contractual employees, however, there is a question about their housing. Many are vendors, and it is clearly impractical to provide office space on some other site for many of the vendor operations. Other contractual employees providing, for example, some computer services, are also involved in day-to-day contact with Fund staff, and hence it would reduce their efficiency if they were not located on the premises.

Beyond these needs, however, further consideration should be given to whether or not the primary employers of some contractual employees could provide office space. This would, of course, presumably raise the cost of obtaining such services, but perhaps in the long run this would offer some potential savings as we examine the possibility of expanding our headquarters at a cost in excess of $100 million. If we consider, for example, relocating 50 contractual employees--and this is an arbitrary number--as well as cutting back the number of contractual employees by perhaps 50, we see the prospect of reducing our office space needs to within approximate range of the current housing capacity of this building.

This brings me to the issue of whether the Fund has adequately reflected upon its overall staffing needs. As we observed at the previous Board discussion on this issue, we have felt for some time that a thorough discussion of our overall manpower and staffing needs in relation to the evolving priorities of the organization would be helpful. We believe that such a discussion would be particularly helpful before we took the decision currently before the Board, and remain uncomfortable that we have not focused in a comprehensive way on the evolving staffing needs of the Fund in the context of discussing requirements for office space. There continues to be a presumption that the current number of staff--all current regular staff, plus perhaps 70 percent of the contractual employees--will be needed indefinitely.

We are all aware that in recent years the operational demands on the Fund have increased tremendously. It may well be that the operational demands will continue at this pace for some time. It may also be, however, that some of these operational demands will recede. It does seem that it is worth looking very carefully at our overall staffing needs as we approach the 1990s, to consider whether there may be any scope for staffing reductions and, in this context, to take a long, hard, look at the priorities which we attach to our activities, and to the implications of those priorities for staffing levels. While the staff paper is extremely helpful, it has not focused on this broader question but rather on the issue of contractual employees.

The Fund has grown substantially over the course of the 1980s. In looking at the numbers, it appears that a reduction in the current personnel ceiling of 100, for example, would still leave a staff larger by 155 positions than the Fund had only seven years ago. To put this in the form of an analogy that may be imperfect, a power utility company does not install base capacity to deal with peak demand. By the same token, it is not clear that the Fund needs to have the capacity in its headquarters building to deal with its peak employment requirements. That is the real issue: are we in a circumstance where we face peak demands on our staff that may recede somewhat, thus giving us some potential scope for a future reduction in staffing needs, or in reality will the staffing needs of the Fund continue to grow?

Lastly, we understand that the World Bank is conducting a detailed review of its own space requirements, and that there is a possibility that some surplus space from one of the newer World Bank buildings could be sold to the Fund. Specifically, the new building located on the other side of G Street might be available to the Fund as one of the options in the Bank's overall restructuring of its own housing plans and policies. We understand that a report on this issue will emanate from the World Bank in several weeks. From the very preliminary and informal information that we have been able to obtain from the U.S. Executive Director's office in the World Bank, this seems an option worth examining. Perhaps the staff has some information about this possibility, and we would hope that the Board could have this information before proceeding with a decision such as that proposed today.

In conclusion, we welcome the information that has been provided. We remain unconvinced that the opportunity presented by this discussion has been fully used to take a long, hard, look at the Fund's staffing needs for the next decade. We would hope that the Board could look into this matter more carefully--not only at contractual employees, but also at our overall staffing needs in light of our institutional priorities--in order to see if indeed the current staffing level cannot be reduced.

The Director of Administration said that the staff had not in fact received any approaches from the World Bank indicating any property that the Bank might wish to make available to the Fund. There was, however, to be some discussion within the Bank in the near future, following up some discussions that had already been initiated in the Bank's Executive Board.

The Bank had a number of current problems with its present office space, the Director continued. The main headquarters block was apparently below standard--in terms of asbestos and other conditions in the building. At a minimum, the Bank considered it necessary to undertake a massive renovation project in the main headquarters block, to eliminate the present health problems, and to bring the building up to current standards. That renovation probably applied primarily to the main block on 19th Street, rather than to the Bank's more recent buildings. Such a substantial renovation would be very expensive, and would also certainly involve a great deal of dislocation over several years while the work was under way. In connection with that problem, the Bank was considering a substantial rebuilding of the headquarters block, which would increase the density of office space, for example by filling in some existing courtyard space.

If the Bank in effect substantially reconstructed, at considerable expense, its headquarters building, it might then find that it had excess space outside the main building, the Director observed. Whether that happened, depended upon a number of factors, including the Bank's future staffing needs when it completed the reconstruction, and indeed whether the Bank's Board approved a reconstruction at all. Hence, there was certainly the possibility that in some years time, the Bank might find that one or more of its existing outlying buildings were surplus, and which it might then seek to sell. No reference had been made to Fund staff about which of the outlying buildings the Bank might choose to sell in such circumstances. He would have assumed that the Bank might have preferred to sell one of the buildings further away from its own headquarters than the building to which Mr. Dallara had just referred. For example, the Bank had a building on Eye Street, which it might well prefer to sell. In essence, the Bank's plans at the present time were uncertain, and the sale of a building was one of a number of options being considered by the Bank. The results of that consideration could not, of course, be known in advance.

So far as the Fund was concerned, there was, first of all, substantial uncertainty as to just what the Bank would be putting on the market, the Director remarked. Before deciding to sell to anyone else, they would need to consider the needs of their own subsidiaries, in particular the International Finance Corporation (IFC)--either with regard to the IFC's space needs, or as a rental investment. In general, the possibility that the Bank might sell a building at some time in the next few years simply raised an issue discussed in the original staff paper--namely, that one option for the Fund, instead of enlarging its present headquarters building, could be to buy another building somewhere in the vicinity. That purchase could be from the Bank, or from any other owner of property. The staff had assumed that if the Bank did wish to sell a building, it would wish to do so at the market price. One could not assume that the Fund could get a better deal from the Bank than from any other seller of a commercial building.

Therefore, quite apart from the current uncertainty surrounding the Bank's plans, the option of purchasing a separate building should be considered in relation to the merits of enlarging the present building, the Director considered. The staff had, in an earlier paper, pointed out that there were at least two advantages to enlarging the present building to meet future space needs, as opposed to buying another building in the vicinity. First, it would avoid the problem of multiple locations; all Fund staff would be located in one building. That advantage would not exist if an alternative building were purchased, although the inconvenience would not be serious if the Fund could buy a building nearby. Second, the development bonus--already discussed in the Board--which was associated with acquiring the balance of the land in the Fund's headquarters block, and the fact that the Fund could then build to a greater density than would normally be available on a land parcel of that size, provided considerable cost advantages for enlarging the headquarters building over acquiring another building of comparable size. The Board needed to be aware of those issues when considering whether it was worth waiting, perhaps for some considerable time, for a decision by the Bank.

On the broad issue of what the future staffing needs of the Fund in the years ahead would be, the staff could not provide the Board with any firm guidance or assistance, the Director of Administration commented. Currently, the Fund was under considerable pressure, since demand for the Fund's services was very high. The Fund had responded, in recent years, by a small increase in manpower, at a rate substantially lower than the rate of increase in the demand for Fund services. The gap between the two had been met by making more demands on the staff, by expecting higher output, and by taking advantage of automation and other means of improving efficiency. Nonetheless, the Fund remained under considerable pressure, and he saw little likelihood that that situation would change, at least during the next few years. Of course, others might have a different view as to the longer-term future of the Fund, and whether it was likely that demand would decline so that the Fund could actually begin to reduce its staff numbers. While he could not answer that question, it seemed prudent for the institution, in planning its space needs, to assume that that was probably not likely. If such a decline did occur and headquarters had been enlarged, the Fund could end up with extra space that would presumably be leased. If the decline were to have been even more substantial, the Fund then could consider disposing of some part of the building. However, those were all very long-term issues, and the institution could only plan for the foreseeable future.

The staff representative from the Administration Department said that the figures for the capacity of the headquarters building of 1,600 people estimated for Phase I--the main headquarters--and 335 people for Phase II, were computed in 1987 and in 1981 respectively, and had been based on extrapolation of typical departmental and Executive Director office suite layouts at the time. Since then, the Fund had become substantially automated, considerably enlarging the amount of space needed to house, for instance, a Division or the staff in an Executive Director's office. That fact had changed the empirical basis upon which capacity was determined.

While the staff had not refined its estimates of the building's capacity, inasmuch as the Fund was in any event obliged to accommodate its staff, he estimated that capacity had diminished to a considerable extent. Room for perhaps 100 persons had been absorbed by automation equipment alone. Hence, while he could not specify the current capacity of the building with any degree of certainty it was considerably less than the 1,935 estimated ten years previously.

Contracts made with outside firms involved some firms doing their work at a site provided by the firm involved, the staff representative from the Administration Department stated. Some consultant firms--for example, some firms that did design work for the building--worked on their own premises and came to the Fund infrequently or not at all. Other contractuals, individuals or firms that required interactive work with the Fund staff, did require office space in the building. He did not consider it prudent, or cost effective, to accommodate contractual personnel or vendor personnel separately if they required such close interaction with the staff. In any event, outside space to which they could be shifted would also need to be found.

Mr. Dallara said that a certain percentage of the contractuals indeed needed to be on site for efficient performance of their function. He had only suggested the possibility that those contractuals, or a certain percentage of them, might find their own housing within the framework of their principal employers. While the staff had commented that location outside the Fund would not be cost effective, that depended in part on the alternative scenarios available. It did seem worth looking carefully at whether a portion of the current contractuals could be housed by their parent employers, if any. The staff paper had noted that approximately 70 percent of the current contractuals were engaged in relatively permanent activities. Hence, perhaps 60 to 65 individuals among the current contractuals might not be required in the future. So the Fund should certainly not presume that those individuals were to be required. Now, other functions might well arise, but it would certainly not be prudent to assume that the Fund would have to house 240 contractuals on a continuing basis. That, of course, was aside from the question of whether the Fund tried to house elsewhere contractuals currently under contract. The combination of the two issues still suggested that there was scope for reducing current staff housing needs at headquarters by approximately 100 individuals. Any further information on that possibility would be welcome.

He thought that the Director of Administration had presented an accurate overview of the World Bank's position, Mr. Dallara remarked. Some additional points should, however, be noted. First, the Director had indicated that there was no reason why a purchase of housing from the World Bank should be any cheaper than a purchase from elsewhere. This was true, but if such a purchase would avoid relocation of the Western Presbyterian Church, substantial costs would already be saved. Second, although the World Bank would want to approach any transaction from a business-like point of view, his authorities, as shareholders of both institutions, had to view a potential Bank-Fund transaction as different from one with any other commercial party, because his authorities would be on both ends of the transaction. So, it was not just a question of both institutions adopting a business-like point of view. There could also be a coincidence of needs.

The Chairman observed that even given the existence of the same shareholders on both sides of the transaction, it was difficult to find a better price than that of the market.

Mr. Dallara stated that he had not said that there could be a better price than the price of the market, only that there ought to be some potential for consideration of structuring a deal between the sister institutions that might provide mutual benefits by reducing the inefficiency of current World Bank space usage and providing savings to the Fund. There were potential savings to the common stockholders which might not necessarily be apparent at first glance. The Bank's G Street building, which might or might not be the one that the Bank would wish to sell, was currently appraised for $85 million. That might not be an accurate indication of the building's market price, but it potentially housed 1,200 individuals. He had also been told that the building could in effect be sold by half--that half of the building could perhaps be separated from the other half.

While he could not vouch for the complete accuracy of his comments, even if only three quarters correct, they suggested a potential option that should be examined carefully before making other decisions, Mr. Dallara concluded. Even assuming that the appraised value understated the market value of the G Street building by $40 million, the Fund might be able to purchase half of that building--and considerable space--for less than $120 million, the total costs of the option presented in the staff paper. There was clearly some potential in that possibility worth pursing actively.

The Director of Administration said that the World Bank would have surplus space available only if it did not grow at all and if the Bank adopted the most expensive option currently being considered: to raze the headquarters building section by section and rebuild completely on that block, so as to get the full advantage of the potential of the block. The Bank's main building had been built long ago, at a time when zoning restrictions were more severe. Therefore, the World Bank could--if it pulled down its present headquarters building section by section--build a new building which had a substantially increased capacity. Other options, such as filling in the courtyards, might be somewhat less expensive. However, at a minimum, such a massive reconstruction of the World Bank's present headquarters block would involve very considerable expense, and there had been some opposition on the Board in the World Bank to undertaking that most expensive option. The Fund simply could not tell whether the Bank was likely to pursue that option, or to pursue the less expensive option of simply renovating its present building so as to bring it into line with safety standards.

In fact, the World Bank building on G Street was not actually owned by the Bank, the Director of Administration remarked. The land was owned by the George Washington University, and the Bank had built that building as some kind of shared arrangement with the University, presumably through a long-term lease under which the ownership of the building would eventually revert to the University as the owner of the land. Given that situation, the possibilities of purchasing the building were not clear.

Mr. de Groote said that no one could seriously believe that the activities of the World Bank would shrink or remain stable. There was an obvious relationship between the level of lending by the World Bank and the Bank's personnel needs. On the basis of the Bank's capital increase and its lending plans, it clearly envisaged substantial expanded lending in the coming years, with an obvious need for increased personnel.

The Bank was, more and more, turning toward lending, and in particular toward lending for social projects, Mr. de Groote added. Both categories were labor-intensive, and the Fund could certainly assume that those tendencies implied that even more personnel would be needed by the Bank.

The Chairman said that the Fund, of course, had neither the same ambitions nor growth plans. He could, however, imagine four scenarios: first, a sustained increase in Fund staff; second, prolonging the recent trend--a slight increase in staff; third, stabilization; and fourth, a decrease in staffing. Scenario one would be rejected by the Board and by management, while scenario four seemed equally unlikely. Within the family of UN institutions, there was therefore the tremendous paradox that the institution faced with such high demands and having permanent means of increasing its contribution to the world, had the most restrictive attitude to increases in staffing. That firm attitude of management underlay the strength of the institution. Nevertheless there was evidence that the institution should grow, albeit slowly. Certainly, he could not explain in rational terms how it could shrink substantially. While exact predictions were of course impossible to make, the only rational long-term management decision possible would be to have some spare space, given the observed tendency toward some increase in staff levels. There were approximately 159 member countries in the United Nations, while there were only 151 Fund members; that too indicated the likelihood of increased demand for Fund services.

Mr. Fernández Ordóñez said that he wished to congratulate the Treasurer's Department for proposing a method that avoided immediate effects of acquiring the church property on the Fund's income and on the rate of charge. That had helped his chair to support the proposed decision.

He did not wish to repeat all the other reasons that had led his chair to support management's proposal, Mr. Fernández Ordóñez remarked. The proposed decision was a wise one, and should not be postponed, even in light of the possible offer from the World Bank. If the current opportunity was missed, the institution would have to face more costs and less efficiency in the years to come.

On the other hand, acquisition of the church property did not imply future decisions on other administrative questions, Mr. Fernández Ordóñez considered. Whatever the future decisions on the size of the staff, the acquisition of the church property was a sound financial decision, as it would increase the value of the Fund's current property--namely, the value of the headquarters building. That in turn would keep important options open.

Mr. Grosche said that he welcomed the Managing Director's statement and the additional papers prepared by the staff. Together, they had made the issue more transparent, and he was ready to support management's proposal.

Like Mr. Dallara, he found the paper on staffing particularly interesting, Mr. Grosche continued. It cast more light on the gray area of contractual employment. In giving attention to the authorized staff positions during budgetary discussions, growth in certain other areas tended to be overlooked, and after studying the staff paper, he was confirmed in his belief that efforts should continue to be concentrated on setting priorities for the Fund, instead of going the seemingly easier route of expanding Fund staff levels.

However, the staffing issue did not need to be tackled immediately in order to come to a sound decision on acquiring the church property, Mr. Grosche observed. Even at stable or somewhat reduced staff levels, the purchase would be justified. The fact that the existing building could be expanded if that was necessary and appropriate should increase the value of the Fund's property tremendously. Considering the prospective developments in the Washington real estate market, he could imagine that building a new annex as soon as possible made sense even if a part of it were to be leased to outsiders. But, that decision could and should wait. It needed to be pondered carefully, and he was certainly ready to discuss staffing needs again considering that decision, because when designing the annex and discussing the financing involved, he wished to ensure that all Board members were comfortable with that decision. He stressed, however, that he did not see a close connection between staffing needs and the building of a new annex. Even if empty space was available in the future, he was convinced that neither management nor the Board would ever behave so irrationally as to request additional staff because of that factor. Empty space could always be leased to outsiders.

Mr. Marcel observed that his position coincided closely with that of Mr. Grosche. His authorities believed that the acquisition of the Western Presbyterian Church property should be judged on its own merits. The Fund's objective in becoming the sole owner of the entire block of property on which its headquarters building was located seemed quite sensible. It should be recalled that ever since the completion of its new headquarters, the Fund had expressed an interest in acquiring the whole block of property. Now that a window of opportunity had opened, it did not seem reasonable to ignore that option, which was, beyond any doubt, the optimal one available. The terms and conditions attached to the proposed acquisition would enable the Fund to keep all its options open for the future, at the best possible cost. In particular, the additional staff paper on the accounting treatment of the operation made it clear that a transfer of assets, combined with use of the suspense account, would minimize the purchase's impact on the Fund's income position and rate of charge.

Hence, on purely financial grounds, the acquisition of the church property appeared to be a sound business decision that stood on its own, Mr. Marcel commented. Considerations pertaining to Fund recruitment policy should therefore not be factored into the current discussion, and the decision under consideration should be kept separate from any further step that could be taken to extend the Fund's headquarters. Such an extension would have to be decided on the basis of different criteria, which the Board would consider when the need arose.

A possible offer from the World Bank could only be made at the end of a lengthy process, while it was a matter of urgency to decide on the acquisition of the church property, Mr. Marcel observed. He understood that the Bank had been reflecting on the reconstruction of its headquarters buildings for some years, and it was therefore not certain that a decision could be made rapidly. In addition, a postponement would make any Fund decision on the future extension of its headquarters building entirely dependent on the Bank. Finally, it was not at all certain that the purchase of a property from the World Bank would be a more cost-effective approach for the Fund to adopt. At first glance, such an approach seemed both less convenient and more costly.

In conclusion, he stressed that time considerations were especially relevant in the case at hand, Mr. Marcel concluded. It would be particularly regrettable if lengthy discussions led the Fund into a situation where it could not exercise its option on the church property. He strongly recommended that the Board should make a decision at that meeting.

Mr. Hogeweg recalled that in previous meetings his chair had strongly favored acquiring the Western Presbyterian Church property, in order to create the possibility of expanding the Fund's headquarters building. He therefore fully endorsed the Managing Director's statement.

It was important to remember that the decision at hand related only to creating the possibility of expanding the headquarters building in the future, Mr. Hogeweg continued. The decision to actually do so could be made later. The evidence presented on staffing levels, and on the different categories of people working in the headquarters building, was certainly sufficient to warrant taking that first step immediately.

However, even if the Fund did not in the end use the additional space that it would acquire, purchase of the church property was warranted, since it increased the value of the Fund's existing property.

So far as financing of the operation was concerned, it was important to remember that the transaction would probably save rather than cost money, Mr. Hogeweg concluded. That most important fact was easily missed if the short-term effect was to increase charges. The proposal to hold the church property in a suspense account for the time being seemed appropriate, and he was sure that by the time that actual expansion of the headquarters building was approved, as he expected it to be eventually, a satisfactory way of financing the expansion and acquisition would be found.

Mr. Fernando said that he could support the Managing Director's proposal to purchase the Western Presbyterian Church property on the understanding that the cost would be held in a suspense account pending a future determination on the financing question at a later date. He noted that a failure to act soon would mean the permanent surrender of the option to expand the headquarters building. It also implied a judgment that no further additions to staff to meet expanding responsibilities would be necessary. There was no basis for making such a clear judgment, and the option to create the future capacity for the institution's growth should therefore be safeguarded.

So far as the alternative possibility of a purchase from the World Bank was concerned, time was not on the Fund's side, Mr. Fernando considered. That difficulty was to some extent mitigated by the fact that the present proposal stood on its own as a viable financial proposition.

He wished, however, to underscore that the issues relating to the financial burden of that capital expense, as well as its accounting treatment, should be reviewed once the option to expand the current building had been implemented, Mr. Fernando continued. In general, if the cost of expansion was determined to be an operating expenditure, the burden should be borne by the entire membership, and not just by those using Fund resources, because the Fund's services to the membership were much wider than the mere provision of financial resources. In that connection, he noted the practical problem created by the floor to the rate of remuneration being set at 80 percent by the Articles of Agreement. It was therefore important to actively pursue means of mitigating the financial burden, means that would avoid triggering the automatic increase in the rate of charge needed to meet the net income target. His chair was also open to reviewing the entire concept of the treatment of capital expenditure in the Fund's accounting. When considered last in 1985, the Board had decided to review that subject on the next occasion that the Fund could discuss capital expenditure. In particular, the feasibility of depreciation accounting should be considered, not merely on its merits, but also in light of the need to ensure equitable burden sharing.

Mr. Santos said that the staff papers on Fund space requirements and methods of financing the acquisition of the property provided further data that backed up the Managing Director's recommendation in support of the view that the expenditures involved constituted a sound investment. Hence, his chair was ready to support the Managing Director's proposal.

His main concern related to the eventual implications of acquisition and expansion for the basic rate of charge, Mr. Santos commented. Burden sharing would be discussed in the near future, while the prospects for the SDR interest rate remained uncertain, given the imbalances that persisted in the economies of major countries. Under those circumstances, he wondered whether members of the Board could provide some hints as to their preferred means of financing the capital expenditures associated with the acquisition of the church property and extension of the headquarters building. In his view, those expenditures should be spread over the life of the fixed assets, using a depreciation method of accounting.

Mr. Massé commented that the possibility of using a building purchased from the World Bank seemed to be an option in which a decision could only be taken well in the future, possibly years later, while the decision on acquiring the church property had to be taken immediately.

So far as staffing needs were concerned, his position was similar to that of Mr. de Groote, Mr. Massé remarked. It was likely that the World Bank and the Fund would need more staff in the future rather than less. There was no doubt that the dependence of some countries was increasing, not decreasing; that the role of international institutions was bound to become more important and to require more personnel, not less; that the world was becoming more complex; and that the role of the Fund was obviously expanding.

In viewing the proposed acquisition as a business decision, the comparative cost per square foot of usable space was less if the decision was taken to acquire the property and to develop it, Mr. Massé noted. However, that decision did not have to be considered at the current meeting, and acquiring the church property would be a good investment decision whatever happened in terms of the Fund's office space needs; it was a sound business decision to support the Managing Director's proposal, and he urged management to proceed as quickly as possible in the acquisition of the property.

Mr. Legg said that his authorities were impressed by the Managing Director's arguments regarding the desirability of reaching an early decision on the matter at hand, and of taking advantage of the long-term investment opportunity which might not remain open for very long.

His chair was sympathetic to management's desire to reduce and eventually eliminate its reliance on leased office space, Mr. Legg continued. Seeking to enlarge the headquarters building on the remaining part of the block now occupied by the Western Presbyterian Church seemed the right direction in which to move. He also saw some merit in management's general strategy for purchasing the site, although it was not without risk, partly because it was not yet clear how receptive the Western Presbyterian Church would be to the Fund's proposal. Hence, were a decision taken to proceed, he would urge management to finalize its arrangement with the Western Presbyterian Church at the earliest possible moment, and preferably before finalizing its purchase of the alternative site.

The staff paper on Fund space requirements had raised important questions regarding the proper role of contractual employment, Mr. Legg considered. It had come as something of a revelation to discover that 70 percent of such employment could not be considered "short term," and that that had been the result of a deliberate decision to minimize the creation of new staff positions. Nevertheless, those were issues best pursued by the Board at another time, the next most obvious occasion being the preliminary discussion of the 1990 budget.

He understood the concerns of those Directors who feared that by moving toward eventual enlargement of the Fund Headquarters building, the Board might also be legitimizing a faster than desirable rate of growth in the Fund's establishment, Mr. Legg remarked. However, like Mr. Grosche, he felt that that point had been overstated in connection with the specific matter before the Board. More generally, it was important to separate prudent business considerations from longer-term policy issues affecting the Fund's role and size, if the Fund was to operate efficiently. So far as the possible availability of office space from the World Bank was concerned, it did not appear from the staff's comments that that was a sufficiently concrete option on which to rely. While there might be merit in exploring the possibility further, it should, nevertheless, not prejudice the decision to be taken that day.

The staff paper on financing the acquisition addressed many of the concerns expressed by Directors, Mr. Legg observed. It was axiomatic that one could not spend $30 million without the Fund, and ultimately its membership, somehow bearing the cost, even if those costs were offset by other savings over time. He had no difficulties with the staff proposal that the acquisition be treated as an asset held in suspense pending a final decision to enlarge the Fund headquarters. That presumably reflected the logic that were the Fund not to proceed with the enlargement, the asset could be resold and the original composition of the Fund's assets restored. If, however, the enlargement were to occur, the suspense account treatment only deferred the problem. Moreover, the problem would be larger, to the extent that the Board would then have to consider how to handle the estimated $90 million cost of the enlargement.

Unfortunately, none of the three longer-term options proposed by the staff by which the burden on the rate of charge might be eased was without its difficulties, Mr. Legg said. The forthcoming review of burden sharing might provide some guidance, but the staff was correct to be pessimistic about that. The possibility of reducing the net income target was perhaps the simplest solution, but that might create an unfortunate precedent. He was not convinced that the income target should be adjusted to accommodate capital expenditures which of themselves did not directly improve the Fund's current financial position. Depreciation accounting was obviously the most comprehensive solution. Not being an accountant, it was difficult for him to comment on the technical considerations. Nevertheless, he noted that the Board had rejected this option in the past, most recently in 1985. He presumed that that reflected a judgment that the Fund's existing conservative approach best presented a true and fair representation of the Fund's financial position and its ability to meet its responsibilities to its members. It might well be worthwhile to review that again, but his authorities would need to be convinced that such a change was worthwhile on its merit and not merely to avoid the pain of an increase in the rate of charge. Certainly, he would want to avoid such a change being misconstrued as a means of superficially strengthening the Fund's financial position.

He supported the draft decision, but would need to think long and hard about the financing considerations before an eventual decision to proceed with the Fund enlargement was taken, Mr. Legg concluded.

Mr. Kafka said that he supported the proposed decision. He considered the acquisition a good deal merely as a real estate speculation, even if it should turn out to be nothing more than that.

His chair was, however, concerned at the high proportion of contractual employees who were performing continuing functions, Mr. Kafka commented. That affected, inter alia, the nationality distribution of the Fund staff, and while the approach used did save money, that was not necessarily a decisive argument in favor of it. The use of contractuals was a question that his chair wished to see management address well before the next budget came before the Board.

If and when the time came to construct a building on the property, it was most important to ensure that a careful examination was made of the costs relative to other possibilities of putting the design of that building out to international competitive bidding, Mr. Kafka concluded.

Mr. Zecchini said that on the basis of the material in the staff papers and the recent discussions in the Board, he supported the proposed decision. The future space needs of the Fund were likely to rise if the present demands that the world economy and the Fund membership were placing on the institution continued over the medium term, as seemed likely. Currently, the Fund headquarters building was indisputably overcrowded. The unique opportunity existed to acquire the church property and to arrange the space in the headquarters block in the most appropriate manner, and that opportunity should not be missed. It was also important to ensure that all Fund staff worked in the same location, and hence he strongly urged the return of the library to the headquarters building. It was also urgent to enlarge the present conference room in the Visitor's Center, as it was clearly too small to support effectively the Fund's many educational activities in the fields of economics, money, and finance. The financing of the capital expenditure incurred could be held in suspense until the Board decided on the extension of the headquarters building. Various options were available to spread the burden of the project fairly on the membership, and there could be an additional discussion in the Board on the financial aspects of the project. He wondered whether use of some Fund reserves for the acquisition, coupled with the use of long-term depreciation, could be a viable option.

Mr. Ovi said that he fully supported the proposed decision, on the grounds that the acquisition was itself a commercially sound investment. He regarded a possible purchase from the World Bank as far too uncertain for the Fund to rely on it at that point in time, as much work would have to be done in the Bank before a more definitive position could be reached. That process would include the discussion of papers on the size and role of the World Bank in the 1990s, and, like Mr. de Groote, he strongly suspected that the review would result in increased rather than reduced staffing levels. In any event, a World Bank solution would be second best, and would also be more costly to the Fund.

So far as the Fund's future staffing needs were concerned, he agreed with the Director of Administration that pressure on the staff had increased considerably in recent years, Mr. Ovi remarked. Hence, it was difficult to foresee any significant decline in staff numbers in the near future. Also, he saw no reason to question the strong assurance given by management that eventual extension of the present building would not in any way lead to a change to the current cautious policy on expansion of staff number.

The crucial factor involved in making the decision was the lack of alternative sites to which the existing church could be relocated, Mr. Ovi observed. It would not be sensible to let the remaining possibilities slip out of the Fund's hands, and that could only be avoided by going ahead as management proposed, thus keeping open the possibility of later expanding the present headquarters building. He was confident that the Board would at a later stage be able to find a solution to the financing question satisfactory to the entire membership.

Mr. Yoshikuni recalled that his chair had consistently advocated a central role for the Fund in the management of the international monetary system, as well as in the context of the debt strategy. In that connection, while he agreed with the importance of keeping the Fund a small and efficient institution, he stressed that it was equally important to address the issue of Fund space requirements correctly, with a view to maintaining the smooth functioning of the Fund. The staff papers clearly indicated that the current manpower requirements--which necessitated leasing additional space outside the original building--were not likely to diminish in the future. Accordingly, it was appropriate to explore the possible alternatives to leasing the existing space, as the current approach was both inconvenient and costly in the long run. Acquisition of the church property would be a good solution given the property's ideal location, and he was ready to support management's proposal. However, he also recognized the strong concern raised by the U.S. chair. In that connection, he welcomed Mr. Dallara's constructive suggestions, which included an alternative solution. He therefore requested that the staff give due consideration to the alternative proposal, while proceeding along the lines suggested by management.

Mr. Dai commented that from a longer-term point of view, it would be more desirable and cost effective to have all Fund staff in a single location and in the Fund's own building, rather than leasing offices elsewhere. In addition, according to the staff analysis, there was likely to be continuing need for space in the future. He agreed with the proposed steps to be taken in connection with that matter, and with the method of financing proposed by the Treasurer's Department. Therefore, he supported the proposed decision.

Mr. El Kogali observed that the Managing Director's statement made a convincing case for purchasing the church property. The property appeared to be a good investment, and he supported the proposed decision.

He also supported the proposal to hold the expenditure of acquiring the property in a suspense account until such time as the Board decided to proceed with the expansion of the headquarters building, Mr. El Kogali continued. However, the Fund needed to consider the question of depreciation accounting for capital expenditure, an approach which would spread the cost of capital outlays over the life of the asset. In any event, a way to spread the cost of capital outlays over the entire membership, and not just over the users of Fund resources, was clearly needed.

Mr. Cassell said that the staff papers had been helpful in connection with some of the particular areas that had concerned his chair during previous discussions of the proposed purchase. In the spirit of keeping options open for as long as possible, he had concluded that the arguments in the Managing Director's statement were persuasive, and that the proposed decision would keep more options open for the medium term than would be available were the opportunity to slip by. Hence, he supported the proposed decision.

If the Board did indeed decide to acquire the church property, that did not imply acceptance of the proposition that the Fund's headquarters should be enlarged, Mr. Cassell commented. It was convenient to split the decision in that way, although he noted that in strict logic he could see no other reason for buying the land other than to build on it. However, he acknowledged the advantages of the two-stage approach, which implied that in due course the Board would need to look at future manpower projections quite closely. The Board would also need to look at possible alternative options for meeting the Fund's accommodation needs in a most cost-effective way, and alternative options for financing major capital projects.

Mr. Ismael said that he associated himself with most of what had been said by previous speakers, and he therefore joined other Directors in supporting the proposed decision.

Mr. Al-Assaf said that he supported the proposed decision. In order to facilitate a favorable final decision on the extension of the headquarters building, it was important to make a conscious effort to limit the cost of the acquisition to the proposed $30 million, which would necessitate the use of competitive bidding for the preparation and building of the new church.

Mr. Demaestri stated that his authorities welcomed the Managing Director's statement, and the proposed decision on the understanding that the Executive Board and management would do their best to avoid or reduce any effect on the rate of charge of financing both the capital expenditure of acquiring the church property and of funding an expansion to the headquarters building.

Mr. Ghasimi commented that the staff papers on future Fund space requirements indicated that the services of a majority of the present temporary employees of the Fund would be needed in the future. Furthermore, the Fund's current leasing policy entailed additional costs and inconvenience which should be rectified. As the relocation of the Western Presbyterian Church was conditional upon securing agreeable property in the vicinity of the church's present site, and as the present supply of suitable properties was severely limited, the possibility of expanding the headquarters building in the future might be foregone if the Fund did not take up the present opportunity to purchase the church property.

It appeared proper to hold the cost of acquiring the church property together with the related expenditures, in the proposed suspense account until the Executive Board made its final decision on enlarging the headquarters building, Mr. Ghasimi considered. It was, however, of paramount importance to ensure that if and when the decision to expand the Fund headquarters building was finalized, the acquisition and construction costs should not affect the Fund's income or charges. To that end, it might be appropriate to change the present accounting system and to adopt a method of depreciation accounting, as described in the staff paper.

Mr. Othman commented that his chair supported the proposed decision. Of the three alternatives presented in the staff papers for tackling the problem of present and future Fund space requirements, acquisition of the church property clearly provided the most cost-effective and efficient means of meeting those needs. He also supported use of the suspense account in connection with the acquisition.

Mr. Dallara said that his authorities continued to have serious reservations on the need to move ahead with the acquisition, in large part because they remained unconvinced of the need to provide permanent housing for the number of staff outlined in the staff paper. Looking back over the evolution of Fund staffing over the past years, there had been quite a substantial increase in Fund staff despite the best efforts of management. Indeed, the average increase in manpower over the past four years had been 48 a year.

He was thus under the impression that the additional demand for staff services had been largely met by increasing the staff, rather than by reallocating staff from other areas, Mr. Dallara continued. For instance, he noted that during years when the operational demands on some departments had grown considerably, the total staffing of the European Department had not declined at all. That raised questions about the process of prioritization within the organization, and about whether more intensified efforts were required in that area.

He was still puzzled as to why, in light of additional information, it did not make sense to reflect further on possibilities involving the World Bank, Mr. Dallara commented. It seemed to his authorities that there was a possibility, if not a probability, that with mutual collaboration between the two institutions, a solution could be found to additional housing needs which could be more cost effective than the option currently being presented. The cost of purchasing the additional property and relocating the church alone involved $30 million, money that might not be required in relation to the use of World Bank buildings. While he did not argue that the World Bank option was clearly feasible, it certainly seemed worth further exploration before the Fund committed $30 million to pursue an option which had, at the time of the Managing Director's statement, appeared to be the only feasible option for expanding the Fund headquarters.

The Director of Administration said that when the Board did come to consider the question of enlarging the headquarters building, a clearer indication of the exact cost would be available, and that would be the time to look again at what was then available on the market. If the Fund did not proceed to acquire the church property immediately, the only option available might be to buy another building. The purpose of acquiring the church property was to keep the option open either to build an addition to the existing headquarters building or to buy an outside building, whether it was a building offered by the World Bank or by some other entity.

Mr. Dallara asked whether the urgency that the Fund faced related to acquiring the church property, or to acquiring the alternative sites on which the church could be relocated.

The Director of Administration replied that it was primarily a question of the availability of other sites because the site purchased had to be one sufficiently attractive to the church in order to persuade the church to move.

The Fund's real estate agents had found two properties, at least one of which--the most attractive--seemed likely to be off the market completely within a few weeks or months, the Director of Administration continued. It was not even clear whether the building was still on the market. If, in the end, the Fund could not acquire the alternative site or--rather less likely--could not persuade the Western Presbyterian Church to move to the new site, then the deal would fall through. Of course, at some future time some years down the road, the Fund could always revive the possibility.

Mr. Dallara said that he wondered whether an alternative involving the World Bank, and in particular the building on G street, could be more cost effective than the option currently being proposed. In addition, he wondered whether one possible approach would be to move ahead by authorizing management to seek options to purchase the site for relocation of the church, while discussions with the church, the World Bank, and other parties concerning alternative sites were under way.

The Director of Administration said that while he could not completely rule out the possibility that a property offered by the World Bank might in the end be cheaper, he did not regard that as a probability. Currently, it was not possible to limit the Fund's action to placing an option on the alternative site, as time had passed since that possibility had first been suggested. The site under discussion, and which the staff had informally mentioned to some of the leaders in the Western Presbyterian Church, was about to be developed. Plans already called for a building on that site, although firm contracts had not yet been made, and it was still therefore open for the current owner of the site to accept an offer from the Fund to buy the land. However, in the circumstances, the Fund's real estate advisors had said that the only likely way to persuade the owner to give up his present development plans was for the Fund to make a cash offer to acquire the property almost immediately.

The Chairman said that prudence suggested the need to keep options open. To take the proposed decision was absolutely in line with prudent and cautious management, the same attitude that underlay management limits on staff increases. He noted that there was very broad support in the Board for the decision.

Mr. Dallara said that in the absence of further exploratory discussions with the World Bank, his authorities continued to have considerable difficulty with the decision to buy the church property and to relocate the church, and hence that he opposed the decision.

The Executive Directors approved the proposed decision, with one Director objecting.

The decision was:

> Management is authorized to proceed with the acquisition of the Western Presbyterian Church property and to take action to secure appropriate zoning and other municipal approvals on the basis of the plan outlined in Part IV of EBAP/88/197 (8/9/88), at a cost not to exceed $30 million, with the understanding that

the Executive Board will be informed from time to time of the progress of major elements of the plan, and that management will request further consideration by the Executive Board in the event it appears that any particular element will deviate substantially from the plan in time or cost. The method used to account for the cost of the Western Presbyterian Church property and related expenditures will be that set out in paragraph 18 of EBAP/88/265 (11/1/88).

Adopted November 21, 1988

2. SENEGAL - 1988 ARTICLE IV CONSULTATION AND ENHANCED STRUCTURAL ADJUSTMENT ARRANGEMENTS

The Executive Directors considered the staff report for the 1988 Article IV consultation with Senegal, and Senegal's request for arrangements under the enhanced structural adjustment facility, in an amount equivalent to SDR 11,488,500 over three years beginning November 11, 1988 (EBS/88/222, 10/31/88). They also had before them a medium-term economic and financial policy framework paper on Senegal (EBD/88/304, 10/31/88), and a statistical annex (SM/88/248, 11/9/88).

The Managing Directors made the following statement:

There follows for the information of Executive Directors the text of a memorandum that I have received from the President of the World Bank to serve as the basis for my statement on the matter to the Board. This text summarizes the main points covered by the Executive Directors of the Bank and IDA in their November 15, 1988 discussion in Committee of the Whole of a paper entitled "Senegal: Policy Framework Paper, 1988/89-1990/91."

1. The Executive Directors, meeting as a Committee of the Whole, reviewed the Third-Year Policy Framework Paper for Senegal, covering the period 1988/89-1990/91. The Executive Directors generally commended the Government of Senegal for its sustained efforts in implementing its adjustment program. The Directors noted that, since October 1987, when the last policy framework paper (PFP) was discussed, a number of significant measures have been instituted, in the context of the IDA supported SAL III operation and the three-year IMF structural adjustment facility. Among these measures, the Directors cited: completion of the reform of protection; further liberalization of economic regulations; reform of the investment incentive and export promotion framework; redesign of agricultural pricing and incentives policies; initial actions to diversify agricultural production and exports; redefinition of agricultural credit and livestock policies; elimination of undue tax benefits under special agreements with enterprises; introduction of fiscal

reforms to increase revenue and streamline tax incentives; further improvements in public expenditure and debt management; reduction of domestic arrears; adoption of a planning reform and further strengthening of public investment programming and monitoring; liquidation of public enterprises and improvement of the managerial environment in the public enterprises; adoption of a population policy and strategy and creation of an Employment Fund.

2. It was noted that progress in reducing internal and external deficits, resuming economic growth, and slowing inflation was achieved despite declining terms of trade and an often difficult international trade environment. A number of speakers observed that, despite substantial progress in the structural adjustment process, Senegal's economy remains fragile. The country is now facing increasingly difficult economic reforms whose adoption will depend on the continued political commitment of the Senegalese Government and people to the objectives of adjustment. There was widespread support for the program objectives for the next three years, as outlined in the paper.

3. The Executive Directors' concerns, broadly speaking, fell into four categories as follows:

i. competitiveness of the economy and prospects for future investment and supply response;

ii. domestic savings, external capital requirements, and needs for further debt relief;

iii. agricultural policies and prospects for diversification and exports; and

iv. the social dimensions of adjustment and need for employment creation.

4. Regarding investment and growth prospects, a number of speakers expressed reservation concerning the extent to which these could occur in a fixed exchange rate environment. Recognizing that membership in the West African Monetary Union conferred a number of positive benefits, some speakers still questioned whether second-best measures, such as subsidies and higher tariffs, and deflationary policies could be as effective as flexible exchange rates and interest rates, combined with disciplined fiscal and monetary management, in improving the competitiveness of the Senegalese economy. Nevertheless, several speakers commended the progress in liberalizing the economy in recent years, pointing out that the success of the adjustment process would depend on a significant supply response from the private sector. In this connection, the need to continue strengthening incentives, to reduce labor cost and

labor market rigidities were emphasized, as was the excessive cost of inputs such as energy and transport. While noting that a number of important steps had already been undertaken to rationalize the public enterprise sector, the lack of progress in implementing the privatization program was also mentioned. The need to encourage the informal sector was stressed as a promising avenue of future private sector growth. Finally, it was recognized that population growth and the environmental degradation also presented major impediments to long-term growth and that vigorous implementation of the Government's new policies in these areas was imperative.

5. The Executive Directors stressed several points relating to the financial viability of the adjustment program and the size and availability of external support. Improved public finances were especially important for the success of adjustment. Speakers stressed the need to restructure public expenditures, address the problem of excessive size of the civil service, introduce further tax reforms, improve tax and custom duty collection, and reduce the budgetary drain caused by the public enterprises. Concerning the banking sector, a question was raised whether the exchange rate system was encouraging capital outflows, which, it was noted, were particularly large in 1987/88. At the same time, the need to achieve long-term solvency of the banks and efficient financial intermediation were emphasized, in order to improve domestic resource mobilization and allocation. It was further noted that financing requirements in the next three years, while considerable, are expected to be met through a combination of continued donor support and debt relief. In this regard, the positive response of the donor community toward Senegal in the context of the Special Program of Assistance to Africa was mentioned. Actual flows, of course, will depend on vigorous continuation of the structural adjustment process at the macro and sectoral levels.

6. In spite of the favorable growth performance of the agriculture sector during the past three years, one speaker noted that the projected growth of agriculture was barely above population growth. Several speakers emphasized the need to expand and deepen the agricultural reforms already in place, in particular in reducing public sector intervention in the agriculture sector, and streamlining land tenure laws and practices. Other speakers commented on the need to diversify agricultural exports away from groundnuts, in view of a frequently difficult international trade environment.

7. Some speakers stressed the growing importance of addressing the adverse social consequences of adjustment in the short term, especially the potential impact on urban unemployment of implementing reforms in the civil service and public enterprise sectors. While the establishment of the Employment Fund in

December 1987 was commended, it was also stressed that future adjustment programs will need to continue to address the social costs of adjustment and that the education and health sectors should have high priority in public expenditure and project aid. A short-term program of public sector job creation was mentioned as a possible interim measure, though in the long run, economic growth, particularly in the private sector, should be expected to generate the bulk of employment in the economy.

8. Finally in underlining the importance of protecting the environment, an Executive Director urged the Bank to consider means of assisting African countries to resist any attempts to dump toxic wastes in Africa.

Mr. Santos made the following statement:

Since the initiation and implementation of a wide range of structural and demand-management policies in mid-1983 with the support of the Fund, the World Bank, and the international financial community, the authorities have made substantial progress in liberalizing the economy, strengthening the incentives for agricultural and industrial production, initiating public enterprise reform, further reducing the Government's overall fiscal deficit, and, above all, strengthening the external payments position.

When the Executive Board had the opportunity in March 1988 (EBM/88/52, 3/29/88) to review the 1987/88 program and assess economic and financial developments in Senegal, it was recognized that despite considerable political pressures associated with the presidential and parliamentary elections that took place in February 1988, the authorities had effectively taken policy actions that kept the program on track for achieving its quantitative objectives. As envisaged, all the performance criteria under the stand-by arrangement were met and all the benchmarks under the structural adjustment facility were observed. Reflecting the resilience of the agricultural sector and better weather, real GDP is estimated to have increased by 4.4 percent with a significant reduction in the rate of inflation, as measured by the GDP deflator, from 3.8 percent to 2.5 percent. The overall fiscal deficit, on a commitment basis, was reduced, and the external current account deficit, excluding grants, was narrowed. In the execution of structural reforms, accompanied by cautious demand-management policies, the 1987/88 investment program, which placed emphasis on high-yielding projects and rehabilitation and maintenance operations, was implemented as planned. Other major structural and financial policies that were executed--including further liberalization of the import and marketing of agricultural inputs, reduction of subsidies and transfer of services to the private sector--are detailed in Table 3 of the staff report. Thus, progress toward adjustment with growth continued in 1987/88.

The authorities are greatly encouraged by the strong economic recovery and the substantial progress achieved in reducing the country's internal and external financial imbalances. They realize that further progress toward sustained economic growth and the attainment of financial stability depends crucially on the reduction and elimination of other structural obstacles that have been identified. These, as elaborated in the staff report, extend to agriculture, industry, the fiscal sector and the reform of public enterprises, public investment programming, and the banking sector. In order to overcome these obstacles, and in the context of their continued commitment to intensified adjustment, the Senegalese authorities have updated their structural and financial adjustment policies to cover the period 1988/89-1990/91 as extensively explained and summarized in Table 2 of the policy framework paper (EBD/88/304). The overall objectives of the medium-term strategy are to achieve an average annual increase of 3.8 percent in real GDP, a reduction in the rate of inflation, as measured by the GDP deflator, of 2.3 percent by 1990/91, and a narrowing of the external current account deficit, excluding official grants, to 6.5 percent of GDP by 1991, coupled with a strengthening of the country's debt-servicing capacity.

Over the medium term, the Senegalese economy is vulnerable to adverse external developments, especially with regard to the world market price for groundnut oil. The medium-term scenarios presented in the staff report highlight this vulnerability. In this context, and in line with the thrust of their medium-term policy strategy, the authorities will pursue the objectives outlined in their program for 1988/89, as regards growth, price stability, and the external payments position in line with the medium-term objectives of the program.

Consistent with their established good record of performance in connection with previous programs, the authorities have already implemented a number of the priority reform measures indicated in Table 6 of the staff report. For example, in the important agricultural sector, where price distortions appear prevalent, the authorities have taken the courageous step to adjust downward the producer price of groundnuts for the 1988/89 crop season. In the industrial sector where reforms are being undertaken in order to enhance productivity and the sector's competitiveness and to promote exports, the system of effective protection has been rationalized. The labor and investment codes have been revised. The tariffs for electricity, water, and transportation, and the prices on a number of goods still subject to controls have been reduced. And as part of the comprehensive reform program for the banking system, specific rehabilitation and restructuring plans have been initiated for the Banque Internationale de l'Afrique de l'Ouest - Senegal (BIAO-S) and Banque Nationale de Developpement du Senegal (BNDS).

These examples testify to the determination of the Senegalese authorities to face the challenges of the immediate future as well as of the medium term. In this context, they intend to pay special attention to financial policies to support the effects of structural policies. In the fiscal area, the aim is to take further measures to improve revenue collection by 9.5 percent. While limiting the growth of expenditure and net lending to 6.3 percent, it is worth mentioning that, as in the preceding three years, the Government will not grant any salary increases, thereby limiting the wage bill to 2.2 percent. These measures should help to turn the overall fiscal position from a deficit of 1.0 percent of GDP in 1987/88, to a surplus of 0.2 percent in 1988/89. In support of the prudent fiscal policies envisaged, the authorities intend to continue to pursue cautious monetary and credit policies that are consistent with the macroeconomic objectives of the program and with the need to provide adequate financing for the productive sector.

Regarding the social impact of the structural adjustment program, it is expected that the policies and measures contemplated will result in a continued improvement in real per capita income. In particular, in view of agriculture's role as the predominant source of economic growth in Senegal, it is envisaged that farmers' real income, compared with that of the urban community, will show a substantial increase over the medium term. The authorities believe that the measures being undertaken will, in the medium to long run, create an overall economic environment in which private sector activity will be enhanced to help job creation for the urban unemployed. In the meantime, and in order to alleviate the short-term effects of adjustment, an employment fund has been established to support government policies for retraining, including institutional arrangements for laid-off workers to secure new employment and for others to relocate.

Finally, my Senegalese authorities believe that their comprehensive medium-term policies and the proposed measures for the 1988/89 program will lead to further progress toward achieving sustainable growth, and attaining internal and external financial stability. In view of their concern about the vulnerability of the economy to adverse external developments, as already mentioned above, they hope that their adjustment efforts will elicit the appropriate external financial support, some of which has already been secured from the international financial community.

Mr. Marcel made the following statement:

We are pleased that Senegal is able to take advantage of the enhanced structural adjustment facility, which is most appropriate given the country's present situation. The policies set in place since 1983 have helped to liberalize the economy and to strengthen public investment programming. Moreover, the public financing deficit has been reduced through comprehensive revenue measures and the pursuit of a restrained expenditure policy. In addition, significant progress has been made in the settlement of domestic and external arrears, and Senegal's external debt, in terms of GDP, has been reduced through a prudent external debt management policy. We commend the Senegalese authorities for the progress which has already been made in spite of adverse exogenous factors such as droughts and declining terms of trade, as well as social pressures. However, further progress toward the achievement of a sustainable rate of growth and the establishment of a sound economic and financial balance is still hindered by several remaining rigidities.

On the revenue side, the measures envisaged are supposed to improve the distribution of the tax burden, along with the elasticity of the tax system. In this regard, it appears critical to extend the VAT to the informal sector where potential resources are high, particularly among traders. On the expenditure side, the allocation of additional resources to recurrent structural expenditures will be possible only through a reduction in the number of civil servants and a freeze on general salary increases, as well as the pursuit of austerity measures. Moreover, we urge the authorities to reinforce fiscal discipline in integrating special accounts into the budget, so as to improve the transparency of public finances. We also would appreciate more information on the new tax regime applicable to foreign-financed projects.

The financial intermediation necessary to pursue a credit policy aimed at meeting the growth requirements of the economy while containing the rise in aggregate demand depends on the rigorous implementation of the comprehensive reform program for the banking system. However, much has to be done in this field, and it is important to note that the terms and conditions of the rescheduling proposed to the primary banks have recently been improved. It is also of the utmost importance to maintain an appropriate approach toward the problem: the World Bank should remain in charge of bank restructuring, while the Fund focuses on overall credit and monetary policy in collaboration with the appropriate authorities. The crisis in the banking system underlines the need to strengthen external controls, particularly central bank supervision. Moreover, the authorities will have to maintain a tight rein on credit, considering the recent private capital outflows.

Turning now to structural policies, price distortions have weakened the incentives for efficiency and diversification in the agricultural sector. Therefore, we welcome the Government's recent decision to adjust the prices of groundnuts and rice as a first step in improving this sector. We urge the authorities to pursue the similar implementation of diversification measures in the fishing, livestock, and local cereals sectors, in order to reduce the importance of groundnuts in the growth process.

Labor market rigidities constitute a major weakness in industrial policy. The difficulties in implementing the new labor code--which aims at alleviating administrative control--must be overcome. Under the present conditions and within the context of international uncertainties for export crops, liberalizing the labor market is of the utmost importance in increasing overall competitiveness and in improving the economic environment in Senegal.

Taking into account the size of the public enterprise sector in the budget, we urge the authorities to accelerate the pace of reform in streamlining the divestiture process and improving the financial relations between the Government and these enterprises. In this regard, we welcome the authorities' intent to set up a monitoring unit in this area.

Prospects appear relatively uncertain for the external sector. Export receipts from the groundnut sector are expected to rise about 44 percent in 1989, contributing to an overall rise of 11.8 percent in export earnings. That assumption may be rather optimistic. As the staff notes, adverse weather conditions could lead to serious financing gaps and a deterioration of the external payments position in the foreseeable future. In addition, we would like to ensure that the private capital outflows which took place this year will be reversed.

Considering the uncertain future prospects, the authorities must be all the more stringent in reinforcing the far-reaching structural reforms included in the program. We fully support the proposed decision.

Mr. de Groote made the following statement:

The staff paper is of a caliber that shows again that it is possible for the staff to produce important documents in areas outside its traditional area of competence--namely, the area of development strategies for member countries. But I doubt that the staffing level of the African Department will be sufficient to meet such important challenges in the future.

Senegal has certainly succeeded in following a courageous austerity program during the past years. It has been helped in some years by better weather conditions, and the international financial community has also played its part. Therefore, we can probably say that the country has now reached the stage of being able to use those underlying dynamics to put its economy on a high growth path.

Measures are needed to abolish the structural bottlenecks and to ensure continued timely and essential external financial assistance. The measures taken and expected in the agricultural sector are in themselves remarkable. Recent adjustments in producer prices of various commodities and the reorientation of public investment toward the development of infrastructure will probably contribute to the desired diversification of the economy, and should induce foreign exchange savings. I have, however, a number of critical remarks to offer.

First, the Government's control over a number of commodities and services is still definitely too wide. For instance, the certification requirement for storage, transit, and trucking fees remains a major obstacle to the diversification of agricultural products. Another major concern relates to the discriminatory price arrangement concerning petroleum products. Differentiations are accepted in the price of the same commodity according to its final use. This certainly causes administrative difficulties in monitoring such a complex system, and creates a risk that corruption might be associated with such extended administrative measures--a point on which the staff could perhaps comment.

I am somewhat disappointed by the continued decline in the tax revenue to GDP ratio, though it is overcompensated by decreases in expenditure. However, I am not certain that the decrease in public expenditure in a country with such important development priorities is really a good thing in itself. Urgent steps have to be considered to improve the administration of taxes, and to extend the tax base to the growing parallel sector.

Perhaps the most serious deficiency in the Senegalese economy today is to be found in the banking system. The level of nonperforming loans at the end of 1987 represent more than 50 percent of outstanding credit. This is certainly not conducive to good business ethics, and favors capital outflows and speculation. It is, therefore, very urgent that a serious medium-term effort be considered to consolidate the banking situation and to recover the loan portfolios of the banks.

It is clear from the documents before us that the authorities consider that two important steps need to be taken in the medium term: reducing the obstacles to private sector initiatives and growth, and achieving more efficiency in public resource management. These two objectives will, of course, help Senegal to grow out of debt, and will also aid the country's overall growth strategy. I would, however, like to have more certainty from the staff as to the extent that Senegal will be able to base its growth on exports, an approach which seems to constitute Senegal's only way out of its present problems. Nor am I certain that the different measures listed in the medium-term program will really contribute directly to these crucial objectives. Demand-management policies have exercised an unavoidable developmental effect on Senegal's export capacity. Capacity utilization is very low in the industrial sector, and it is also worrying to observe that there is a decreasing occupancy rate in tourism, while population continues to expand at 3 percent a year--a very high figure indeed.

In conclusion, it is obvious that our renewed confidence in the Senegalese authorities' growth perspective depends on the implementation by Senegal of a number of appropriate measures, all directed at structural improvement in the economy.

Mr. Fernández Ordóñez commended the authorities for their successful management of the economy during the past years. It was also quite impressive to see the extent of the policies included in the medium-term strategy adopted by the Senegalese Government. The program covered all fields in which the staff had detected structural rigidities: agriculture, energy, and industrial policies, as well as fiscal and public sector policies. The general orientation of these policies seemed correct, with any doubts centering on implementation difficulties. He did, however, have some questions regarding the evolution of the external sector in the medium term.

The balance of payments targets for 1988/89 appeared realistic and attainable, provided that export prices improved as expected, and bearing in mind that the balance of payments deterioration suffered by Senegal in 1988 had mostly been caused by an export shortfall related to adverse weather conditions, Mr. Fernández Ordóñez continued. However, he did not understand so clearly some of the assumptions underlying the subsequent years. First, as effective prices of groundnut oil were projected to increase by 19 percent in 1988/89, as a result of difficult weather conditions in other countries producing groundnut oil, the projected decline in groundnut oil prices by only 1 percent when conditions improved could be too optimistic. Second, he did not know whether the projected moderate 3.5 percent increase in the volume of oil exports was consistent with the supposed rationalization of the energy policy, which included a decrease in oil product prices. Finally, even if the balance of payments targets were achieved, there remained a large financing gap for the coming years. The gap appeared close to SDR 400 million by 1991/92, and he wondered whether the staff could comment on the possibilities for covering that amount. He supported the proposed decision.

Mr. Enoch made the following statement:

Senegal's performance over the last year has generally been very good; 1987 was the third year of relatively strong growth, and there was a further fall in inflation. Despite a sharp deterioration in the terms of trade, the current account deficit again declined. The fiscal deficit also improved, although--because of concessions made during the election period, and loss of revenue immediately after the election--the deficit was somewhat above the level expected earlier. Significant progress was also achieved on the structural side, particularly in the fields of import liberalization and subsidy reduction, especially in the groundnut sector.

The main unanticipated problem that faced the economy over the past year was the heavy capital outflow. This has been associated with speculation that Senegal might be considering leaving the CFA franc zone, as well as with a number of other factors. I would be interested in hearing staff comments on the relative importance of these various factors. I note that the staff does not expect these outflows to persist, and Appendix VI of the staff paper indicates that capital reflows are projected from 1988/89 onward. I would be interested in whether there is any evidence that the period of heavy capital outflow is over. Linkage of the staff's recommendation of a more active interest rate policy--with which I fully concur--to the need to restrain capital outflows suggests that a continued fragility is perceived in this area.

The staff paper is excellent in its presentation of the continuing obstacles to growth in the Senegal economy. Table 4 is particularly helpful, and such tables will, I hope, become a standard feature of program papers. Overall, I strongly welcome the thrust of the medium-term program. I do have some concern, however, as to whether it is sufficiently bold. I note, for instance, that the growth rate is projected to be below that of recent years; the current account is projected to improve, but this seems to reflect very largely the projected improvement in the terms of trade, and there is not yet sufficient sign of the export diversification which Senegal needs so badly; and the investment ratio remains flat. The fiscal position is projected to improve markedly, a projection that seems perhaps optimistic in the absence of clearly specified measures. More efficient tax collection, as presented in the authorities' proposals, clearly has a limit, and it seems unfortunate that the needed tax reform still appears to be some way off. Senegal continues to suffer from acute domestic liquidity difficulties, in part linked to particular problems in the banking sector. Acceleration of the reform of the banking sector would seem desirable. In short, there are a number of areas where further policy measures might have been warranted under this program.

In this connection, Table 4 of the staff paper provides a comprehensive survey of areas where the reform of policies might be introduced, or speeded up. I will mention just one more of these areas, that of parastatal reform. I note that little has so far been achieved in the divestiture of public sector assets, and that the suggested pace of action is rather slow. I would be interested in hearing from the staff whether they see any prospect that this could be accelerated.

It is interesting to try to compare the projections in the present paper with those contained in the paper on Senegal's stand-by arrangement, which we discussed in March 1988, although it is actually rather difficult to do so. For instance, the current paper uses SDRs as the unit of account, while the paper on the stand-by arrangement used CFA francs; it is difficult to see exactly what exchange rate is used in the latter paper so that direct comparisons can be made. It would be helpful if in future a more common framework could be maintained between successive papers on a country, so that comparisons could be made more easily.

What does emerge from these comparisons after making all these analyses and exchange rate changes is that prospects for Senegal under the program to be supported by an arrangement under the enhanced structural adjustment facility are little different in most respects from those envisaged under the stand-by arrangement. The main impact of the new arrangement is to restore Senegal's balance in the Operations Account to the position that it was expected to have been in before the capital outflows occurred during the past year. Such an objective makes sense: Senegal's deficit in its Operations Account represents very expensive borrowing, and its replacement by concessional enhanced structural adjustment facility resources therefore clearly benefits the country. Nevertheless, there still remains the question--which we raised in the Board's recent discussion on Ghana--of whether so much of the resources of the enhanced structural adjustment facility should be used, in effect, for financial restructuring, rather than being directly applied to the real economy. This is a very tricky issue; but given that the purpose of the enhanced structural adjustment facility is to enable a country to achieve a radical turnaround in its economic structure, and given Senegal's clear need for significant moves to encourage export diversification, more ambitious progress in what has now been for several years a very impressive economic adjustment program might have been thought worthwhile.

These observations are not intended in any sense to minimize what have generally been, and should continue to be, bold and well-directed economic policies. I strongly support the proposed decision.

The Chairman said that he was most interested by Mr. Enoch's last remark. However, not enough was known about the relationship between structural improvements and growth. Clearly, structural improvement was the prime emphasis of programs supported by arrangements under the enhanced structural adjustment facility. Normally, growth was expected following such reforms, but not enough economic evidence was available to convince him of more than very conservative growth prospects.

Mr. Fayyad made the following statement:

The Senegalese authorities are to be commended for their sustained efforts in implementing, since mid-1983, a series of adjustment programs with the aim of alleviating structural impediments to economic growth and of reducing financial imbalances. The policies pursued under these programs have contributed to the resumption of economic growth, an abatement in inflationary pressures, and a sharp reduction in the external current account deficit. Together with the strengthening in external debt management, the improved financial situation has resulted in a substantial reduction in the external debt burden. Nevertheless, and notwithstanding the improvements realized in various sectors of the economy, further progress toward the achievement of sustainable economic growth and financial balance continued to be hampered by structural weaknesses, and remained critically dependent upon the continuation of favorable weather conditions. The authorities have, therefore, done well to continue to press ahead with their adjustment and reform efforts in the context of a comprehensive medium-term strategy, in support of which they have appropriately decided to seek Fund support under the enhanced structural adjustment facility. We are satisfied that the policies envisaged in the context of this strategy, beginning with those comprising the 1988/1989 program, should further the adjustment process in the coming years, and should contribute significantly to the achievement of Senegal's medium-term objectives. I am, therefore, in broad agreement with the staff appraisal.

As the authorities clearly recognize, despite the progress already achieved in reforming the agricultural sector, that sector continues to face a number of structural obstacles, reflected mainly in its high vulnerability to adverse weather conditions. The role which the agricultural sector has played following the return of normal weather conditions in revitalizing economic activity in Senegal over the past four years is obvious and needs no elaboration. It is also clear that much of the expected increase in economic activity, and, as can be seen from the staff's medium-term scenarios, much of the expected improvement in the external position, will be contingent upon the continued expansion of that sector. We therefore welcome the high priority which the authorities continue to attach in the context of their present medium-term strategy to agricultural policy reforms, with a view to expanding and diversifying production. In particular, we welcome the authorities' intention to, first, actively pursue diversification in the Fleuve irrigated region and groundnut basin; second, establish, in collaboration with the World Bank, a plan of action that will emphasize improvements in the livestock sector; and third, thoroughly assess the prospects of the fishing sector.

The increase in economic activity in Senegal over the medium term is also expected to come from the growth of a more efficient and competitive industrial sector. We therefore welcome the authorities' intention to step up industrial policy reform with a view to completing the rationalization of the effective system of protection, the abolition of virtually all price controls, the reduction of labor market rigidities, and streamlining of energy policy. In the latter regard, while the structure of energy prices in recent years has served some of the objectives of the authorities' energy policy, the competitiveness of the industrial sector has suffered. We therefore welcome the authorities' intention to reassess their energy policy, particularly with respect to its impact on the competitiveness of the industrial sector, and to prepare--in collaboration with the World Bank and Fund staffs--a plan of action to rationalize energy costs and to mobilize resources for the budget from other sources.

We welcome the measures being taken by the authorities to address the short-term social aspects of the adjustment strategy, as well as the reinforcement of the efforts to improve basic social services.

Finally, we agree with the staff that Senegal has established a fine track record in the implementation of previous adjustment programs. That record provides assurance that the Senegalese authorities will endeavor to implement the policies envisaged under the proposed program. The success of this program will also undoubtedly depend on the timely flow of appropriate external financial support. We support the proposed decision.

Mr. Ghasimi made the following statement:

We welcome this opportunity to review recent economic developments in Senegal and to support the authorities' efforts in moving on with their medium-term structural adjustment program in the context of arrangements under the enhanced structural adjustment facility.

Since 1983, through firm implementation of appropriate structural and demand/management policies combined with the regular use of Fund resources, the authorities have succeeded in revitalizing the economy, reducing the current account and fiscal deficits, and containing inflationary pressures. Furthermore, the authorities have gone a long way under the previous stand-by and structural adjustment arrangements in further liberalizing the economy and improving the framework of incentives in the agricultural and industrial sectors.

While the thrust of Senegal's medium-term adjustment program remains that of sustaining economic growth, achieving balance of payments viability, and reducing inflation, the updated policy framework paper for 1988-91 places particular emphasis on specific policies designed to alleviate the remaining structural impediments to growth. In this regard, we are particularly impressed by the far-reaching character of the macroeconomic and structural adjustment policies contemplated under the present program and summarized in Table 2 of the policy framework paper. Firm implementation of these measures, combined with appropriate flows of external financial assistance on concessional terms, would help the authorities in sustaining economic growth and in alleviating the debt burden. Since we are in broad agreement with the main thrust of the program, we wish to make only a few remarks.

While we recognize the limitations of a common exchange rate policy and also that the level of agricultural subsidies is exerting severe strains on the budget, we are somewhat concerned by the potential impact of the planned reduction in the producer price of groundnuts. Since groundnuts constitute the source of income of most Senegalese peasants, this reduction would affect their income in the short term. Of course, we hope that the program will lead to an improvement in the real income of the farming community over the medium term. However, given the vulnerability of the Senegalese economy to adverse weather conditions as well as to the instability of world groundnut oil prices, particular attention should be devoted to protecting groundnut producers who are among the most vulnerable groups in the population. In this respect, the recent reduction of administrated prices of key consumer goods will be most helpful. In the same vein, we support the authorities' efforts to alleviate the adverse impacts of public enterprise reforms and redundancies through the Redeployment Fund. We also welcome the planned World Bank study on income distribution, welfare indicators, and the socioeconomic impact of the adjustment program. We hope that the Executive Board will have an opportunity to assess the outcome of this work at a later stage.

The size of nonperforming loans--which account for more than half of the ordinary credit outstanding--clearly demonstrates the serious problems confronting the banking system, and the urgent need to press ahead with the planned reform. This is all the more important if the objective of promoting private sector initiative is to be sustained. We support the proposed decision.

Mr. Ismael made the following statement:

I am in broad agreement with the thrust of the staff appraisal. The Senegalese authorities have to be commended for the wide range of structural and demand-management policies that they have initiated and implemented since mid-1983. It is most encouraging to note the strong economic recovery and the substantial progress achieved so far in reducing the country's internal and external imbalances, the more so since all this was achieved despite declining terms of trade and an often difficult international trade environment.

Despite these achievements, Senegal's economy remains fragile. I therefore welcome the Senegalese authorities' request for arrangements under the enhanced structural adjustment facility. Continuation of the previous two consecutive annual arrangements under the structural adjustment facility with arrangements under the enhanced structural adjustment facility is justified, given Senegal's track record in implementing various measures under previous Fund-supported programs. Taking into consideration the strength of the proposed program, I believe that the enhanced structural adjustment facility will provide the needed concessional external financing, and more importantly, will make a significant contribution toward the attainment of the authorities' medium-term objectives. I can, therefore, support the proposed decision.

I fully agree with the staff that in addition to effective policy implementation, the success of this program will also require a timely and adequate flow of external financing. I note with satisfaction that sufficient external financing will be available for 1988/89. I hope that given the authorities' record and commitment in implementing adjustment measures, the international community will continue to extend its support in the years to come.

The authorities have undertaken important steps to remove price distortions on groundnuts and rice and to revise labor and investment codes. Together with further structural measures envisaged under the program, these efforts will improve competitiveness and long-term growth prospects for the agricultural and industrial sectors. In addition, I welcome the reduction of producer prices for groundnuts, since that is expected to contribute substantially to the reduction of government subsidies, thereby reducing the burden on the budget.

I also welcome the various measures contemplated in the financial area, which are intended to enhance the elasticity of the tax system and to improve the distribution of the tax burden. I can also accept the importance of the authorities' plan to contain current expenditures through, inter alia, freezing general salary increases and curtailing the total number of government employees. In that connection, I am pleased to note that the Government has established a Redeployment Fund to help eligible beneficiaries to enter private employment. By addressing some social concerns appropriately, this effort will contribute positively to the sustainability of the adjustment program. I associate myself with the staff on the urgency of banking reform, including the establishment of an agricultural credit system to support adjustment in the agricultural sector.

Finally, with regard to the proposed level of access, I would like to hear from the staff whether larger access could be considered as a replacement for part of the outstanding stand-by arrangement. While I note that the proposed access is relatively large compared with expected average access under the enhanced structural adjustment facility, replacement of the stand-by arrangement financing would be more consistent with the policy adopted in the program--namely, to strictly limit nonconcessional external borrowings. Besides, it would not increase the Fund's financial exposure in Senegal.

Mr. Rieffel made the following statement:

We have often stressed the importance of persistence in pursuing adjustment programs. With relatively few exceptions over the past five years, Senegal has showed persistence in strengthening its macroeconomic policies and correcting structural weaknesses. Consequently, if Senegal persists in implementing the medium-term program outlined in its latest policy framework paper and avoids slippages, we are quite confident that Senegal will achieve external viability and will be able to continue on the path of sustainable growth without recourse to further Fund financing. In short, we regard Senegal as an excellent candidate for under the enhanced structural adjustment facility, and we fully support the proposed decision.

I would like to join other Directors in commending the authorities for their courageous decision to reduce the producer price for groundnuts in the current crop season. We continue to see advantages, however, in adopting a system that has some degree of automaticity, in order to reduce the stickiness associated with the political sensitivity of this price. We note that a study of the groundnut sector was completed last September, and would welcome any information from the staff on the conclusions drawn by this study, and on any implications that it may have for the producer prices that will be announced for the next crop year. We also note that a preliminary audit of SONACOS, the marketing body, has been completed, and we would be interested in knowing if this has uncovered any opportunities for further improving the efficiency of this important enterprise. I would also welcome the views of the staff on the need to maintain a prominent role for the Government in the processing of groundnut oil when, I understand, the Government in a neighboring country is moving toward a less prominent role.

We are concerned about the shortfall in revenue relative to program targets that occurred during the last fiscal year, and we are not entirely convinced that the measures outlined for raising revenues this year will achieve the intended results.

We are also concerned about the large share of revenues derived from maintaining energy prices at levels well above those of the world market. We welcome, of course, the authorities' intention to find alternative sources of revenue, but we are disappointed that concrete steps in this direction will not begin until the next fiscal year. I would also be interested in hearing the views of the staff on which alternative sources appear to be the most promising from an economic point of view. In short, we hope to see a stronger fiscal effort in connection with the second annual arrangement under the enhanced structural adjustment facility.

I have three comments relating to price controls. First, we welcome the decision of the authorities to reduce the number of goods and services subject to price controls to 17 by the end of this year. Nevertheless, we would like to see this number further reduced in 1989, by the removal of controls on items such as bread, charcoal, cement, and transportation. Second, my authorities have been deeply concerned about the pricing of imported wheat. Consequently, we welcome the renegotiation of the protocol with the flour millers that took place last month, and the decision to move to a public bidding system a year from now in order to maximize revenues to the Government from wheat imports. We also hope that the arrangements for the current milling year will be entirely consistent with the spirit of the new pricing policy. Third, we have also been concerned about prices for sugar. We were pleased to see sugar prices reduced by 10 percent last May, and we place considerable importance on the technical and financial audit of the Senegalese Sugar Company now under way. Are we correct in assuming that this audit will be completed before the end of this fiscal year, and that it should lead to a further reduction in sugar prices?

We are also concerned that progress has been slower than anticipated in negotiating performance contracts with public enterprises. The 1988/89 program includes the objective of concluding four new contracts with public enterprises, but I did not find in the staff paper an indication of how much of this sector will be operating under contracts by the end of the fiscal year. My impression is that a number of substantial enterprises will be operating without such contracts, and therefore a more ambitious objective in this area would be appropriate.

We place great importance on the reform of the banking system that is to be implemented next month. The policy framework paper could be more explicit, however, about the pace of this program. Will the key steps in this program be taken by mid-1989, as we urged when the Board reviewed the stand-by arrangement last March, or will some critical steps remain to be taken in subsequent years?

We are seriously concerned about the capital outflows that occurred over the past year. In this connection, we strongly support the view of the staff that a more active interest rate policy may be needed. We would also be interested in knowing if there is any new statistical evidence--since the staff went to Senegal--to indicate that the outflows have been reversed.

Finally, I would like to make two comments of a procedural nature. First, the first annual arrangement under the enhanced structural adjustment facility contains only one structural performance criterion. Given the importance of structural reforms in achieving the medium-term objectives of the program, and the emphasis on structural reforms in arrangements under the enhanced structural adjustment facility generally, we would have liked to see one or two additional performance criteria relating to structural measures. We hope that this element of program design will be more prominent in the second annual arrangement under the enhanced structural adjustment facility. Second, we continue to feel that the staff should provide the Board with an explicit discussion of a member's capacity to repay the Fund in all papers supporting the use of Fund resources. The Board stressed this objective in its recent report to the Interim Committee on overdue obligations. This is obviously more important in cases where the member's outstanding Fund credit is high to begin with and will rise under a new arrangement--as will happen in the case of Senegal. Perhaps the staff could comment on this subject.

In conclusion, I wish to stress the constructive spirit of my comments, and the interest of my authorities in helping Senegal to follow through on a strong adjustment effort.

Mr. Grosche made the following statement:

Like others, I commend the Senegalese authorities for their steady policies. The country has made substantial progress, as economic activity has recovered markedly and financial imbalances have been reduced. The case of Senegal clearly exemplifies what can be achieved if appropriate structural and financial policies are pursued with determination, and are adapted promptly if that is required by unforeseen developments. The economy remains fragile, however, and reform steps that are politically very difficult lie ahead. The country needs support for its bold and well-directed undertakings, and I therefore welcome Senegal's request for arrangements under the enhanced structural adjustment facility.

There is not much that I can add at this stage to the staff papers and the Managing Director's statement which quite adequately emphasize the areas that deserve particular attention. I offer only two brief remarks. First, like others, I welcome the downward adjustment of producer prices for groundnuts for the next crop season. Inappropriate producer prices for this important product have in the past required high government subsidies and have encouraged informal imports of groundnuts from neighboring countries, particularly from The Gambia, where producer prices have been lower.

These imports indicate that there are cases where some form of a regional approach to structural policies may be helpful or even necessary for an appropriate policy assessment in individual countries. A similar point has been made at previous Board meetings by the U.K. chair. Senegal is a good example in that respect, given similar production patterns in The Gambia and Guinea-Bissau. Perhaps the staff could, in future reports on countries in that area, address somewhat more explicitly the issue of interregional production and trade relations, notably with respect to groundnuts operations. Since several countries in the region are implementing Fund-supported adjustment programs, Fund arrangements might be particularly helpful instruments for achieving improved harmonization of national policies.

Second, I fully agree with the staff, Mr. Ismael, and others that the success of the proposed program will depend not only on the effective implementation of the policies envisaged, but also on Senegal's access to sufficient external resources. The donor community currently seems quite responsive to Senegal's excellent track record, at least for the coming year.

I should perhaps mention that the Senegalese authorities have requested debt relief with regard to official debt owed to Germany. My authorities are carefully studying that request, and will very likely arrive at a positive conclusion in the not too distant future. My country is determined to assist those African countries that are willing to help themselves. I support the proposed decision.

Mr. Dai made the following statement:

I would like, first of all, to join previous speakers in commending the Senegalese authorities for their determined efforts in implementing a wide range of structural and demand-management policies. Over the past few years, Senegal has experienced remarkable progress in its economic reforms with a steady recovery in economic activities and a reduction in domestic and external financial imbalances.

Despite the positive progress, there is still a question as to whether the authorities can sustain the present pace of economic adjustment, and whether financial viability can be attained. According to the staff papers, some obstacles remain to sustained economic growth. In agriculture, for example, diversification and efficiency are being hampered by price distortions and an inappropriate infrastructure. Other issues, such as labor market rigidities, public enterprises weaknesses, inefficiencies in domestic banking, and fiscal imbalances, could also impede economic growth.

Senegal has adopted a medium-term economic strategy oriented toward overcoming these obstacles in order to proceed with further adjustment and to consolidate the achievements already gained. I welcome the initiative shown by the authorities in undertaking the medium-term comprehensive economic reform program, and fully support the Government's request for arrangements under the enhanced structural adjustment facility.

Senegal has been one of the successful examples among low-income developing countries in implementing adjustment and structural reform programs in recent years. Apart from the determination and strenuous efforts of the Senegalese Government and people, strong and successive support from the international community, including the Fund, World Bank, and other multilateral and bilateral financial institutions is undoubtedly also an indispensable contributor to Senegal's economic progress. In view of the vulnerability of Senegal's economy and the arduous task of overcoming the remaining structural obstacles to the achievement of sustained economic growth within the context of the Government's medium-term adjustment strategy, I fully agree with the staff's view that the success of the proposed program will depend on both the effective implementation of the policies envisaged and the timely flow of the external financial resources needed to support this process.

The success of the program will require not only external financial support but also strong technical assistance. Like many developing countries, the difficulties or obstacles facing Senegal's economy are associated with the lack of advanced techniques and managerial expertise. In addition to financial support, technical assistance from the World Bank and the Fund would also be crucial in helping the authorities to address the problem of weaknesses in public investment management and in the banking system, weaknesses which include central bank supervision as well as other areas.

Senegal is basically an agricultural economy and is, therefore, extremely vulnerable to weather conditions. The success of development of the agricultural sector may rest on two efforts: the adoption of appropriate policies, including a correct price policy and other policies conducive to giving farmers proper incentives; and the development of science, technology, and increased inputs to strengthen the infrastructure in agriculture so that productivity and the capacity to withstand natural disaster are enhanced, and the diversification of production and exports away from a single-commodity economy is promoted.

With the continuation and deepening of economic adjustment and structural reform, the possible adverse social consequence of adjustment, including the potential impact on unemployment, should be given special attention. I note that a Redeployment Fund was established in December 1987, and wonder whether there are other appropriate and timely policy measures available to mitigate the social costs of adjustment, and hence to avoid undesirable consequences. That can sometimes be of vital importance to the smooth implementation of adjustment and reform programs.

For an underdeveloped agricultural economy, population growth is still a matter which needs to be carefully monitored. Average annual population growth of 2.9 percent may present a major obstacle to achieving a sustainable growth in per capita income and to attaining domestic and external financial stability in the medium term.

The Chairman noted that the question of population growth had been strongly considered in the policy framework paper, and although attention to it was new in Senegal, a move in that direction was necessary.

Mr. Alfiler said that he generally agreed with the thrust of the staff appraisal and supported the proposed decision.

It appeared that the Senegalese authorities had made judicious use of Fund assistance over the past five years, Mr. Alfiler continued. As a result, all performance criteria and benchmarks under Fund arrangements had been met, and the major program objectives of sustainable growth, stable domestic prices, and a comfortable external position had also been realized. The higher than average access of 170 percent of quota permitted under the proposed arrangement also indicated the confidence of the staff in the authorities' ability to implement an ambitious structural adjustment program.

The staff was correct in noting that progress attained on the macroeconomic front had allowed the authorities to look more closely at the structural rigidities that had to be addressed in order to protect existing gains, given the economy's continued fragility, Mr. Alfiler commented. In that regard, the table presenting what the authorities called the "structural obstacles for economic growth," and the objectives and measures needed to address those obstacles, could be a useful guide and could provide a basis for specifying a more detailed time frame for the implementation of structural measures in subsequent years.

He endorsed the staff's emphasis on fiscal measures to curtail current expenditures, Mr. Alfiler added. He had noted the courageous decision by the authorities to reduce government subsidies, and the contemplated reduction in civil service staff and the freezing of general salary increases.

A comprehensive reform program for the banking system was essential, Mr. Alfiler commented. He encouraged the minimization of the Government's presence in that sector, and the removal of government guarantees on banking transactions, as well as the strengthening of government supervision. Those measures would go a long way in preparing the system for the eventual greater involvement of the private sector in Senegal's development.

Finally, he was pleased to note that the financing gap that had been identified had also been adequately covered, Mr. Alfiler concluded. With that, he was sure that the Senegal case could be considered a good example of the catalytic role of successful programs.

Mr. Archibong said that he endorsed the staff appraisal. It was encouraging to note that Senegal had, over the years, showed progress in reducing internal and external imbalances. Economic growth had also resumed under moderate inflationary pressures. Those attainments, achieved despite declining terms of trade in a generally difficult external environment, deserved commendation.

The Senegalese authorities had been persistent in their efforts to implement their adjustment program, and thus had a good track record which had engendered international confidence in the efficient management of the economy, Mr. Archibong considered. The monetary and fiscal policy measures embodied in the medium-term adjustment strategy could align aggregate demand and available resources, and could further reduce the overall fiscal deficit while effecting some major structural changes. Liberalization of the agricultural pricing policy, and the authorities' determination to pursue a comprehensive industrial policy reform, could assist in the diversification of the Senegalese economy.

Much, of course, depended on the level of investment, Mr. Archibong recognized. The authorities seemed to be aware of that, and they also understood the need to continue to strengthen incentives and to reduce labor market rigidities. Central allocation of resources during the three-year rolling public sector investment program for 1988/89-1990/91 placed a strong emphasis on supporting directly productive activities. It was expected that several of the reforms to be initiated in 1988/89 would further improve public investment efficiency.

Further, the vulnerability of the economy required not only strong policy measures, but equally strong international support and the provision of adequate financial resources, Mr. Archibong concluded. The fundamental requirement of comprehensive medium-term policies and the measures proposed for 1988/89 underscored the need for cooperation from the international management community. Given that need, and in view of the authorities' excellent track record, he had no difficulty in supporting the proposed decision.

Mr. Al-Assaf made the following statement:

> The Senegalese authorities have exhibited commendable perseverance in implementing structural adjustment programs that effectively addressed the dislocations within the economy. The authorities' pursuit of prudent financial policies has contributed to macroeconomic stabilization, and has started the economy on a sustainable growth path. While the achievements thus far have been impressive, the challenges ahead are equally demanding.
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> The authorities will now have to shift their emphasis from short-term stabilization to medium-term adjustment. The principal challenge is to reduce, with a view to their eventual elimination, all administrative controls that inhibit the smooth

functioning of the economy. Thus, the Government should have a supportive role, while the private sector shoulders the main task of attaining growth, and it will therefore be crucial to enhance the competitiveness of the productive sectors.

Given Senegal's membership in the West African Monetary Union, cost reduction and increased efficiency will obviously be the main tools for achieving this objective. It is, therefore, imperative to reduce labor market rigidities and to link remuneration to productivity. What is more important, enterprises should be allowed to optimize the size of their labor forces. In addition, I endorse the authorities' intention to reassess energy policy in light of its effects on industrial productivity. As the staff correctly notes, oil is a productive input that directly affects the level of economic activity in general, and that of the industrial sector in particular.

Naturally, the reduction of government revenues resulting from the reforms described above will need to be balanced through a cautious tax reform policy, including a broadening of the tax base and enhancement of tax elasticity.

Removal of constraints on financial intermediation will help the private sector to expand agricultural production, enhance industrial productivity, and participate in the rehabilitation of the parastatal sector. Therefore, I welcome the attempts to reform the banking sector and to strengthen the central bank's supervisory role. Moreover, due to the recent increase in capital outflows, a tight monetary stance will need to be maintained. This, along with prudent fiscal policies, will help to contain inflation, and thereby improve competitiveness.

Clearly, the policies described above contribute some of the essential features of a comprehensive medium-term structural adjustment strategy that the authorities are beginning to undertake. It is heartening to note that the authorities fully realize that this process will prove long and tedious, while its beneficial effects may not materialize immediately. The sequencing of these structural policies is pivotal to the whole process. While the excellent policy framework paper was very helpful in highlighting the remaining difficulties facing the authorities and in listing the required policy measures, I wonder whether the staff had an optimal sequencing of these measures in mind.

To conclude, the authorities' commitment to reform is commendable, and the adjustment achieved has been impressive. The proposed arrangement under the enhanced structural adjustment facility provides them with the opportunity to progress further in the process of economic reform, and thus merits our support.

Mr. Adachi made the following statement:

Senegal has taken steady steps along a growth-oriented adjustment path under a series of Fund-supported programs. When thinking of the many difficult cases caused by the stop and go pattern of adjustment, Senegal's continued commitment to adjustment is no doubt commendable. Despite the significant achievements of the authorities so far, much remains to be done, as is recognized by the authorities. In this respect, we would welcome Senegal's intention to pursue policies embodied in the policy framework paper. However, we have a number of concerns over the intended policies and the proposed use of enhanced structural adjustment facility resources.

We welcome the authorities' emphasis on strengthening the fiscal position. However, given the large share of import duties in tax revenue, we wonder whether the projected high growth of tax revenues is attainable in light of the projected low increase in imports: import duties constitute one third of tax revenue, and revenue is projected to grow only at around 10 percent, but imports are projected to grow at around 6 percent.

The budget is no doubt benefiting substantially from the recent decline in world oil market prices, because there is only a limited pass-through of these benefits to users. However, the uncertainty of oil prices underlines the downside risk inherent in the projected fiscal position.

On the expenditure side, we have a serious concern about delays in public enterprise reform. Although the Executive Board has on previous occasions repeatedly urged the authorities to reform public enterprises, the progress made so far has been slow. I regret that the authorities have not tackled the complex, cross-debt relationship between public enterprises and the Government in a comprehensive manner. Moreover, given the complete failure of sales of public enterprises in 1987/88, we cannot expect major successes in that area.

With regard to the subsidies for groundnuts, while we commend the authorities for reducing producer prices, we see room for further reduction, given the projected decline in groundnut prices, since the announced reduction seems to reflect only half of the subsidies provided for groundnut production.

We concur with the staff and the authorities on the need for a tight credit stance in order to prevent further capital flight. However, the projected good harvest for 1988/89, which is the basis for the projected strong export performance, might lead to an expansion of domestic credit, as was the case in 1987/88. On the other hand, a tight rein on domestic credit might make the growth target difficult to attain.

While the staff has concluded that capital flight in 1987/88 was a once and for all phenomenon, we fear its continuation. In this connection, I would welcome staff comments on the situation of the other countries in the West African Monetary Union which could be affected by the shift of the collection center for bank notes.

All in all, taking into consideration the proposed access, we are not comfortable with the intended macroeconomic policy and the gradual implementation of structural policies, particularly the public enterprise reform. We are concerned that the policy objectives will not be attained.

In our view, although the intended program is strong, it is not far-reaching enough to justify the front-loaded disbursement of ESAF Trust resources, as well as the above average level of the proposed access. Combined with the delay in closing the financing gap, that access level has raised our misgivings that the staff has attached more importance to Senegal's financing needs than to the strength of the program, although that is not, of course, the staff's intention. Moreover, it appears that the ESAF Trust resources will replace ordinary resources. Senegal has been a prolonged user of ordinary resources, having had eight arrangements since 1979. We have a serious concern over protracted use of ordinary resources, and following the expiration of the previous stand-by arrangement, our concerns were aggravated by the front-loaded use of enhanced structural adjustment facility resources with above average access limits. As this chair strongly stated in the discussions on overdue financial obligations to the Fund, we do not support the replacement of general resources by enhanced structural adjustment facility resources.

Like Mr. Enoch, we are also concerned that the latter resources are being used in this case for financial restructuring, rather than for supporting measures involving possible external costs. However, since I recognize that the majority of the Board has already supported the proposed decision, I could go along with the proposed decision provided that this case not be taken as a precedent.

The Executive Directors agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/88/168 (11/18/88) and EBM/88/169 (11/21/88).

3. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 88/51 and 88/52 are approved. (EBD/88/325, 11/14/88)

Adopted November 18, 1988

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/88/269, Supplement 1 (11/17/88) and EBAP/88/281 (11/17/88) and by an Advisor to Executive Director as set forth in EBAP/88/281 (11/17/88) is approved.

APPROVED: May 17, 1989

LEO VAN HOUTVEN
Secretary