<u>Also Present</u>
IBRD: R. M. Westebbe, Africa Regional Office. African Department: A. D. Ouattara, Counsellor and Director; E. A. Calamitsis, Deputy Director; R. O. Carstens, C. H. Fisher, I. Kapur, G. B. Taplin, A. T. B. Taylor, R. A. Valdivieso. European Department: M. Guitián, Deputy Director. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; K. F. Habermeier, H. B. Junz. External Relations Department: A. F. Mohammed, Director; H. O. Hartmann. Fiscal Affairs Department: L. K. Doe, V. C. Thai. Legal Department: F. P. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; P. L. Francotte, R. S. J. Martha; R. H. Munzberg. Research Department: J. A. Frenkel, Economic Counsellor and Director; A. D. Crockett, Deputy Director; D. A. DeRosa. Secretary's Department: C. Brachet, Deputy Secretary; G. Djeddaoui, R. S. Franklin, B. R. Hughes, M. J. Miller. Treasurer's Department: D. Williams, Deputy Treasurer; W. L. Coats, D. Gupta, A. F. Moustapha, D. V. Pritchett, A. Salehizadeh, T. Voulgaris. Western Hemisphere Department: S. T. Beza, Director. Bureau of Statistics: C. Briançon. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: E. Ayales, M. B. Chatah, W. N. Engert, A. G. A. Faria, A. R. Ismael, P. D. Péroz, A. Vasudevan, K. Yao, J. E. Zeas. Assistants to Executive Directors: N. Adachi, V. J. Fernández, B. Fuleihan, M. A. Hammoudi, C. L. Haynes, M. Hepp, G. K. Hodges, L. K. Hubloue, S. King, K. Kpetigo, V. K. Malhotra, *F. Di Mauro, T. Morita, W. K. Parmena, L. M. Piantini, S. Rouai*, S. Rebecchini, E. L. Walker, R. Wenzel.

1. REPORT BY MANAGING DIRECTOR

At the conclusion of the meeting of the Committee of the Whole on Review of Quotas (Meeting 88/4, 3/14/88), the Managing Director remarked that the previous week he had met with the management of the Bank for International Settlements (BIS) and had attended two meetings of Central Bank Governors of the Group of Ten. It was particularly useful to maintain a good working relationship with the BIS, which frequently played an important role in bridging arrangements for Fund members and, more generally, prepared high-quality analyses of current exchange market developments.

The two meetings of Central Bank Governors took place as part of their regular monthly meeting, somewhat expanded to include a meeting with other Central Bank Governors, among them, those from Australia, Austria, Saudi Arabia, Spain, and Denmark, the Managing Director continued. On those two occasions, he had reported on the Board's recent discussions on the debt situation, on conditionality, and on the reactivation of the extended Fund facility, particularly in the context of the debt strategy. He noted that communication with the Governors continued to be good; all of them were familiar with the Board's discussions and were warmly supportive of its efforts.

He had also met with the President of the Swiss Confederation and the Minister of Finance for Switzerland, the Managing Director commented. The Swiss authorities continued to be interested in Fund membership, but experience with the referendum on the possibility of Switzerland's membership of the United Nations had not been encouraging. Nevertheless, the Swiss authorities were continuing to cooperate constructively with the Fund. Their contribution to the enhanced structural adjustment facility had recently been proposed to the Parliament, and he had taken the occasion to thank the authorities for that welcome contribution. Thereafter, he had delivered a speech before the Swiss Institute of International Studies in Zurich and had met with the Swiss banking community there to explain the Fund's recent activities.

In Paris he had met with the French Minister of Finance to sign an exchange of letters that would allow the conclusion of negotiations between the French Government and the Caisse Centrale de Cooperation Economique, the institution through which the French contribution to the enhanced structural adjustment facility would be made, the Managing Director remarked. He expected that the text of the arrangement between the Fund and the Caisse Centrale would soon be brought to the Board for its consideration.

That same day he had met with a few Deputies of the Group of Ten to answer their questions on the points raised earlier during the meetings of their Governors in Basle, the Managing Director concluded. The staff would be reporting further on that meeting and on the meeting of the Deputies of OECD Working Party No. 3.

2. OECD WORKING PARTY NO. 3 AND DEPUTIES OF GROUP OF TEN - MEETINGS - REPORT BY STAFF

At the conclusion of the meeting of the Committee of the Whole on Review of Quotas (Meeting 88/4, 3/14/88), the Director of the Research Department reported that the Deputies of the OECD Working Party No. 3 had met in Paris on March 9-10 to discuss the present state of the world economy and various medium-term scenarios. The discussion was not a thorough one, but in general, the Deputies were impressed with the better than expected performance of the world economy in 1987.

On March 10, the Deputies of the Group of Ten met to discuss the international adjustment process and Fund policies, the Director continued. The discussion on the international adjustment process focused on two main topics: the role of the newly industrializing economies and their interaction with the adjustment process in the world economy, and the world economic outlook and the debt strategy. With respect to the former, Deputies recognized the important contribution of the newly industrializing economies and at the same time identified the potential contribution that their policies could make to help resolve imbalances in the world economy. Many Deputies commented on the differences among the various economies as well as the extraordinary dynamism in their performance; they considered that the central question was how to direct that performance in a manner consistent with restoring balance to the world economy.

The discussion on the world economic outlook was extremely brief since that issue had already been considered in the meeting of Working Party No. 3, the Director noted. On the debt strategy, Deputies generally endorsed the current market-based strategy. There was some discussion of the Mexican scheme to swap bonds for debt, and Deputies noted that the scheme provided a good precedent for other innovative, market-based approaches. Deputies considered that a sweeping, across-the-board initiative to resolve the debt problem was unlikely, and that the case-by-case, market-based, voluntary approach remained valid.

On Fund-related matters, it was noteworthy that Deputies recognized the close interrelationship among conditionality, the extended Fund facility, and contingency mechanisms and viewed policies in those respects as mutually reinforcing, integral parts of an overall policy package, the Director considered. Deputies were concerned that streamlining of the policy on conditionality should not lead to its weakening, and they endorsed frontloaded adjustment in Fund-supported programs so as to increase the efficiency and effectiveness of conditionality. The extended Fund facility was discussed in the light of the fact that current problems in the world economy were associated with medium-term prospects and associated structural difficulties. Consequently, the discussion focused in part on collaboration between the Fund and the World Bank and the complementarities between the two institutions that should be exploited.

Some Deputies had expressed a strong concern about recent net reflows to the Fund and considered that a way should be found to allow the Fund to use its resources in a more effective way, the Director of the Research Department concluded.

3. INTERIM COMMITTEE - PROVISIONAL AGENDA

The Executive Directors considered a draft provisional agenda for the Thirtieth Meeting of the Interim Committee, to be held on April 14, 1988 (EBD/88/79, 3/10/88).

The Chairman remarked that he had hesitated somewhat to circulate such a heavy agenda, which Ministers would have difficulty handling in detail. He suggested that the agenda should not be further overloaded; the burden could perhaps even be lightened. It would of course help to make the meeting as productive as possible if Ministers could concentrate on the key issues, and at the same time provide follow-up guidance on the work program for the second part of the year.

Mr. Dallara remarked that he hoped that the sub, or secondary, points that he had in mind adding to the agenda could be taken up in a way that did not broaden the scope of the agenda or increase the burden on Ministers.

His authorities' interpretation of Item 4 on the debt situation and strategy was that the market-based approaches referred to covered more than the reduction of debt, and dealt more generally with what had been called the menu approach to the debt strategy, Mr. Dallara observed. With respect to Item 5 on the role of the Fund in adjustment and financing, in light of the Executive Board's recent discussions on the compensatory financing facility and external contingency mechanisms, it might be better to suggest that Ministers take up those issues together or, if Executive Directors preferred, in subitems that were listed consecutively on the agenda, either following or preceding the subitem on the extended Fund facility. It might also be helpful to draw to the attention of Ministers a matter that was related in many respects to the extended Fund facility by adding a reference in that item heading to program design. The item could in that way be broadened slightly without the need to add a separate item, enabling Ministers to comment on issues that they had in mind with respect to the structural, macroeconomic component of programs to which the Board had been paying some attention in recent months, and to which no doubt it would revert in the forthcoming discussion of conditionality. For instance, on the frequency of monitoring, his authorities had encouraged a shift in some cases from a quarterly to a semiannual basis in conjunction with increased emphasis on certain program areas.

There were two issues of particular concern to his authorities that it might be useful for the Interim Committee to discuss, Mr. Dallara added. The first was the problem of arrears and the need to find more effective mechanisms for dealing with it. In saying that, he recognized that it might be counterproductive to add an item on arrears to the agenda;

alternative solution might be to add an item on the Fund's financial position, which would enable Ministers to talk about various aspects of the Fund's liquidity, including the arrears problem, or to ask them to refer to the matter in conjunction with Item 5(d) on the Ninth General Review of Quotas.

The second issue that the U.S. authorities had an interest in discussing concerned cooperation and collaboration between the Fund and the World Bank, which was not on the agenda of the Development Committee, Mr. Dallara added. Again, he was open to including the matter as another subpoint under Item 5, or as a separate, additional item. He realized the risk of overloading the agenda, but an opportunity for Ministers briefly to address issues relating to Fund/Bank cooperation in light of the progress that was being made would be an encouragement to further progress.

If his suggestions were accepted, the number of items scheduled for discussion at the morning and afternoon sessions would be evenly balanced, Mr. Dallara commented. Another possibility in that respect would be to group the three subitems on compensatory financing, external contingency mechanisms, and the extended Fund facility. On the procedural issues outlined in EBD/88/79, he could accept the suggestions of Chairman Ruding but was willing to listen to the views of other Directors.

The Chairman said that he would be interested in the reaction of other Executive Directors to Mr. Dallara's suggestions for the agenda. He was not in favor of including a special item dealing with arrears, in order to avoid sending the wrong signal to the media or to the public at large. It was a well-known fact that the Fund was not sparing any efforts to prevent an increase in arrears and to ensure that members settled overdue obligations. The situation did not appear to be worsening--the list of members in arrears was almost the same as it had been one year previously--and to put the matter in the forefront of the Fund's concerns would create the impression that its central objective at present was to be repaid. It would be more productive for him to urge Governors privately on the need for their support in resolving the problem of arrears.

As far as cooperation with the World Bank was concerned, he had a somewhat similar concern, the Chairman remarked. Both the Fund and the World Bank were sparing no efforts to improve cooperation. Progress was being made, albeit perhaps not fast enough, but to place the matter on the agenda as a specific item would suggest that no progress at all had been made during the previous five years or so. Obviously, support from Ministers would be a key factor in achieving greater progress, and the issue could be taken up during the second part of the year, once the ground had been prepared.

Mr. Rye remarked that in responding to Mr. Dallara's suggestions, it would be helpful to have more information on how the Chairman of the Interim Committee envisaged handling the informal session in the afternoon. In the past, that session had been broken up into distinct subsessions, and the proposals by Mr. Dallara could add to their number. He could see the force of those proposals, but his immediate reaction, and that of his authorities, to the agenda had been that Ministers would be hard pressed to cover such an extensive range of subjects in a single day. Adding further items would compound the problem.

The question of the Fund's finances could presumably be taken up by individual Governors, as they saw fit, during the discussion on the Ninth General Review of Quotas, Mr. Rye said. The concern mentioned by the Chairman, which he shared, would then be alleviated. On the question of Fund/Bank cooperation, his instinctive reaction was that it was more one for the Development Committee.

Mr. Dallara responded that he took Mr. Rye's point on the Development Committee agenda, which had however already been approved. In his discussions with the Executive Secretary, he had not sensed any real scope for taking the matter up in the Development Committee at the present stage. It was certainly not his intention to suggest to the membership or to the public that no progress had been made, and he supported the Chairman's suggestion that the matter be taken up during the next work program period. Likewise, it was with concern about the sensitivity of the arrears problem in mind that he had suggested taking up the matter in connection with an item on the Fund's income position. The severity of the problem, and the need for collaborative efforts to deal with it, argued for ensuring that Ministers and their Deputies were made as fully aware as the Executive Board was of that need. While the matter could be dealt with in the context of the quota review, he was not sure that all Ministers would want to link the two issues so explicitly.

Mr. Posthumus, in response to Mr. Rye and to a question by the Chairman, said that until the Executive Board's discussions on the issues on the Interim Committee agenda had progressed further, it would be difficult for the Chairman of the Committee to take a view on suggestions made for changing the agenda.

Mr. Sengupta said that the procedures outlined in EBD/88/79 were quite acceptable, the same ones having worked well in the past.

In raising several points for consideration he was not suggesting additions to the agenda, Mr. Sengupta stated. No matter should be brought before the Interim Committee without adequate preparation in the Executive Board, based on a staff paper. An assessment by management and the staff of the arrears problem, and its discussion by the Executive Board, would make it possible for Ministers to comment on the issue, perhaps during the informal session of the Interim Committee at the time of the 1988 Annual Meetings.

In a similar vein, the question of SDR allocations was being treated as routine, whereas the Interim Committee, in its September 1987 communiqué, had not only asked the Executive Board to continue its examination of the question, but had "welcomed the Board's intention to continue its examination of the functioning of the SDR with a view to enhancing its attractiveness as a reserve asset," Mr. Sengupta recalled. That latter aspect of the question had not been discussed by the Board, and the staff paper on the matter did not go into it; however, the Managing Director should mention, in his report, that that broader examination would be made.

The third item on the world economic outlook was marked with an asterisk to indicate that the discussion would cover "the further application of indicators and medium-term scenarios," Mr. Sengupta noted. Two other issues had been listed among the topics for discussion in the staff paper on prospects and policies in the world economic outlook (EBS/88/44, 3/3/88)--exchange rate policies and the international monetary system--although greater stress was placed on exchange rate policies than he considered appropriate; his suggestion was, more broadly, that the management of the international monetary system should be placed on the agenda to give Ministers a preliminary chance to focus on those two issues as well. If Items 5(d) and (e) on the quota review and the question of SDR allocations were taken up in the morning session, and the remainder in the afternoon sessions, the agenda would remain reasonably well balanced.

Finally, referring to Mr. Dallara's point about coverage of the item on the debt situation and strategy, Mr. Sengupta considered that to discuss only market-based approaches would leave the impression that the focus was on only one aspect of the problem. If there was to be any focus at all on the item on the debt situation and strategy, it should follow the title of the staff paper that the Executive Board would discuss shortly on developments, issues, and the role of the Fund in the management of the debt situation (EBS/88/55, 3/9/88).

The Chairman said that his initial reaction would be somewhat like his response to Mr. Dallara's suggestion, namely, that the Board had not yet paid sufficient attention to the two issues singled out by Mr. Sengupta to warrant giving them an asterisk. Indicators and medium-term scenarios had been discussed several times. Of course, Executive Directors, in the Board, and Ministers, in the Interim Committee, should feel free to take up the issue and provide preliminary guidance.

Mrs. Ploix said that she supported the provisional agenda as it had been drafted, for several reasons. First, it was quite extensive already; second, the points made by the Chairman with respect to arrears were valid; and third, as Mr. Sengupta had noted, procedurally, items had to be discussed first by the Board before they were discussed in the Interim Committee.

On the several issues raised by Mr. Dallara, as the Board had discussed the compensatory financing facility, the external contingency mechanisms, and the extended Fund facility separately, it would seem normal to separate the items on the agenda, Mrs. Ploix went on. On the matter of Fund/Bank collaboration, if Mr. Dallara had in mind the idea of a joint meeting of Executive Directors of the two institutions on the structural adjustment and enhanced structural adjustment facilities and the policy framework paper, that again was not an appropriate issue for discussion in the Interim Committee until the Executive Board had taken it up.

Finally, Mrs. Ploix joined Mr. Sengupta in suggesting that it might be appropriate at the time of the subsequent Interim Committee meeting to discuss the international monetary system.

Mr. Dallara remarked that his suggestion had been directed more toward a reordering of the subitems on use of the Fund resources rather than on their grouping.

The Chairman said that he had taken note of Mr. Dallara's proposal to reorder Item 5 to refer first to the extended Fund facility and program design; second, to the compensatory financing facility; and third, to external contingency mechanisms.

Mr. Grosche commented that he had been slightly worried about the heaviness of the agenda but generally satisfied with its content and with the suggested procedures. Having listened to Mr. Dallara, he had found some valid points in his suggestions, first of all, for the reordering, and second, for the addition of a reference to program design in connection with the extended Fund facility. Ministers would then have an opportunity to elaborate on the Fund's approach to adjustment in the context of the current world situation and debt strategy, as well as to mention, if they wished to do so, the need for the Bank and the Fund to collaborate closely, as they already did. An additional agenda item would not be appropriate, for the reasons mentioned by Mr. Sengupta and Mrs. Ploix.

He also sympathized with Mr. Dallara, in suggesting the addition of an item on the Fund's financial position, Mr. Grosche said. In discussing the various instruments, in helping to overcome the debt problem, including the Fund's approach and the assistance it gave, Ministers would certainly come to some sort of conclusion in relation to the financing and financing needs of the Fund. Ministers might also feel the need to reiterate the desirability of an early completion of the quota review, leading to a sufficient increase in quotas. But despite the likely desire of Ministers to refer to the problem of arrears, he would not feel comfortable with a mention of arrears on the agenda itself.

Mr. Al-Assaf said that he could accept the provisional agenda as drafted. He could also go along with Mr. Sengupta's suggestion for rewording Item 4 on the debt situation and strategy. The reordering suggested by Mr. Dallara with respect to the first three subitems of Item 5 was also acceptable, although he would prefer to leave it to Ministers to make the appropriate linkages, without the need for additional subheadings to those items.

Mr. Yamazaki considered that the draft provisional agenda was very suitably condensed and presented. He could go along with the suggestions made by Mr. Dallara on Item 5 on the role of the Fund in adjustment and financing, based on the way in which the Board's discussions had developed.

Mr. Abdallah said that he too had no difficulty with the provisional agenda as it stood. Mr. Dallara's request to reorder the first three subitems of Item 5 posed no problem either, although he was not sure whether the addition of a reference to program design fitted as well in the subitem on the extended Fund facility as it would in the item on external contingency mechanisms.

Mr. Finaish asked what logic underlay the ordering of Item 5 as it had been proposed by the staff.

The Chairman responded that the Interim Committee had long ago requested a review of the compensatory financing facility, which was the first subitem. The second subitem concerned an existing facility, the extended facility; and the third subitem covered an important new initiative that the Board had been invited to look at with care. It was up to Executive Directors to decide whether the agenda and the order of the items were appropriate.

Mr. Kafka remarked that he had no basic quarrel with the provisional agenda, and would certainly not wish to make any late additions to it. However, he saw no reason why Mr. Dallara's suggestion to reorder Items 5 (a), (b), and (c) should not be accepted; it seemed to make good sense. Adding a reference to program design, wherever it was considered to be appropriate, should also not raise any problems. As for Item 4, he would prefer, like others, a more neutral qualification of the main subject, either by omitting the qualifying reference to developments in market-based approaches, or replacing it, for instance, with a reference to developments and problems.

More substantively, Mr. Dallara's suggestions pointed to an organizational problem, Mr. Kafka stated. The Executive Board should begin to discuss the agenda of a subsequent Interim Committee meeting immediately following the adjournment of the preceding meeting, rather than waiting until 30 days before the subsequent meeting was convened to discuss the agenda. By focusing much earlier on the content of the agenda, it would be easier for the staff and the Board to bring new ideas forward and perhaps kill off some old ideas that were no longer needed.

The Chairman observed that traditionally, the Executive Board discussed the work program within two or three weeks following the meetings of the Interim Committee. In that way, the staff had time to make proposals, paying due consideration to the requests made by the Interim Committee. He asked whether Mr. Kafka's suggestion was to advance the discussion of the work program.

Mr. Kafka responded that the discussion on the work program could not realistically take place much earlier. Also, topics were taken off the work program, and others were added. The agenda for the subsequent Interim Committee was a different matter, however, and it could be discussed at a much earlier date, in his view. What he had in mind was a more structured discussion of the agenda of the next Interim Committee immediately following the preceding meeting.

The Chairman commented that the suggestion was an interesting one although it would be necessary to retain full freedom for the staff and management, Executive Directors, and their authorities, to suggest changes to what would be a very tentative proposed agenda. Problems might arise meanwhile, solutions to other problems could suddenly appear, and additions and deletions to the proposed agenda would be required.

Mr. Kafka said that he agreed fully with the Chairman. His idea was intended to help not only Executive Directors but Governors to concentrate on the issues they really wanted to discuss when they next met in the Interim Committee.

The Chairman said that Mr. Kafka's suggestion would be kept in mind when the work program was prepared.

Mr. Zecchini remarked that the agenda was heavy, and perhaps came close to the limit of what could be taken up for the discussion to be of a high enough quality to be useful. Nevertheless, he could accept the agenda as drafted. Additional items would not be appropriate, first, because the quality of the debate would suffer, as would the recommendations that were expected to be made by the Committee. Second, adequate preparation had to be made, both in the Board, and in capitals, before new subjects were added.

On Item 4 on the debt situation and strategy--developments in market-based approaches, he saw no compelling reason for expanding the title further, Mr. Zecchini said. In fact, the reference to market-based approaches had restrictive connotations; as a minimum, the word "based" could be changed to "related," or the qualifying wording could be deleted altogether.

As for Mr. Sengupta's suggestion to refer in connection with Item 3 on the world economic outlook to the management of the international monetary system, Mr. Zecchini went on, the Board had unfortunately not had time to develop its views on the many aspects. He had expected that item to be on the agenda of the subsequent Interim Committee meeting, after extensive preparation in the Board.

He had no objection to Mr. Dallara's request to reorder Items 5 (a), (b), and (c), Mr. Zecchini commented, although he had some doubts about adding references to program design and Fund/Bank collaboration. Those two subjects could be taken up, on the basis either of ad hoc preparation in the Board, or by way of a marginal reference in the context of other agenda items. Barring the first approach, because the Board had yet had the necessary discussions, the extent of which moreover could not be determined in advance, the most that could be done at the present stage would be to reach an understanding that references could be made to both program design and Fund/Bank collaboration in the context of the discussion on the extended facility and the debt situation and strategy. The question of arrears was quite difficult to handle; he was not confident that a useful discussion could develop in the Interim Committee, given that there had not been enough time to ponder the implications of the problem and the possible solutions that might be devised.

Like Mr. Kafka, he considered that the Board was discussing the provisional agenda too close to the actual meeting of the Committee, Mr. Zecchini observed. Furthermore, thought could be given to bringing forward the Board's discussion of some of the major substantive issues taken up in the Interim Committee, as well. Another matter of regret was the lack of sufficiently timely assurances about the format of the forthcoming discussion, particularly in the informal afternoon sessions.

The Chairman said that he did not have the impression that the Chairman of the Interim Committee intended to change what had become the traditional format of the afternoon sessions.

Mr. Posthumus added that the discussion on a number of issues was so far from having been completed--and on that point he agreed with Mr. Zecchini--that it had not seemed feasible for Chairman Ruding in the past two weeks to have made more detailed proposals with respect to the agenda and how it would be handled.

Mr. Zecchini commented that he had been referring to a wide range of organizational details and problems. With respect to Mr. Dallara's apparent wish to have a full discussion on program design, he pointed out that the Board was discussing conditionality only two weeks before the Interim Committee was due to meet. How could Executive Directors adequately prepare themselves and national authorities for a discussion of that issue in the Interim Committee? As for the format of the afternoon sessions, it was not yet known whether the items to be taken up would be considered separately, or together; whether there would be any lead speakers; or whether an understanding would be reached that not all Ministers would be expected to speak on each individual item.

The Secretary noted that the Chairman's intention was to have the benefit of the Board's discussion of the provisional agenda as guidance on the organization of the afternoon sessions. It would be recalled that on several occasions in the past, in transmitting the agenda to the members of the Interim Committee, the Chairman had taken the opportunity to make further suggestions with respect to the detailed organization of the afternoon session, including the points mentioned by Mr. Zecchini. Perhaps Chairman Ruding would avail himself of the same opportunity in transmitting to members the provisional agenda before the Board.

Mr. Zecchini said that he was grateful for the information provided by the Secretary. However, his basic point remained valid, namely, that the agenda was being transmitted to Ministers too late for them to make adequate preparations for their interventions. Earlier consideration of the provisional agenda would, of course, have implications for the work program of the Executive Board.

Mr. Dallara remarked that the basis for the consideration of program design had been laid prior to the scheduled consideration of conditionality, in two earlier discussions that had been held since the previous Interim Committee meeting, and certain aspects of that issue had been covered in several discussions in the Board on topics that were closely related to program design. It was the full breadth of the Board's discussion from one Interim Committee to the next that constituted the Board's preparation for the ministerial meetings. It seemed to him that there was a strong case, at some point during the course of those discussions, to seek further guidance from Ministers.

On the suggestion by Mr. Kafka and others for an earlier discussion of the provisional agenda, Mr. Dallara considered that the midpoint between Interim Committee meetings might be a constructive timing. Too early a discussion would lead to the need for later, substantive changes in the agenda.

Mr. Zecchini said that he agreed with Mr. Dallara that the Board's preparation for the meetings had to be based on a series of discussions. But there had to be a deadline beyond which Executive Directors and their authorities need not take last minute debates in the Board into account in their own preparations for the Interim Committee meetings. Beyond that deadline, Ministers could not be expected to make adequate use, as an input, of the outcome of a discussion of issues that had taken place, for instance, only two weeks previously; such issues should be carried over to the subsequent Interim Committee meeting.

Mr. Posthumus remarked that he felt sure that Chairman Ruding would find it helpful to discuss the provisional agenda at an earlier stage. To do so, the Board would need an earlier insight into how far it could progress with its own agenda and work program in order to prepare the agenda for the Interim Committee.

The Secretary, in response to a question by Mr. Sengupta, noted that he would travel to Europe to discuss the agenda with Chairman Ruding following the Board's discussion. Earlier in the year, Chairman Ruding had been consulted in depth during his visit to Washington for several days in January.

Mr. Prader stated that the position of his chair was basically that because the agenda was already heavy with items, no further items should be added. The reordering of Item 5 suggested by Mr. Dallara was acceptable to him because it reflected developments in the course of the Board's discussions; he could go along with the suggestion to add a reference to program design. However, on the question of arrears and Bank/Fund cooperation, he tended to share the Chairman's view that placing those on the agenda as items might give rise to wrong perceptions about the situation and the policies of the Fund.

Mr. Al-Assaf, reverting to the point raised by Mr. Zecchini, noted that the Interim Committee would also be taking up the compensatory financing facility and the external contingency mechanisms only one or two weeks following the Board's discussions, which would not make the Committee's work any easier. More time was needed for reflection on such issues.

The Chairman noted that the review of the compensatory financing facility had been on the Board's agenda for a long time. Of course, the issue had been complicated by the need to take into account the related proposal for the external contingency mechanisms. He recalled that on the occasion of the previous Interim Committee meeting, when the members had been informed of the need for further delays in completing the review, there had been some expression of concern. The Board should do everything in its power to make adequate preparations for the forthcoming discussions in the Interim Committee, during the coming days, and indeed hopefully put forward conclusions.

Mr. Al-Assaf noted that the Interim Committee had followed its usual practice of encouraging the Board to review the compensatory financing facility. The Committee recognized that there was often not enough time between meetings for the Board to be able to do more than submit a report on the progress it was making. He even wondered how comprehensive such a report could be, when a matter was taken up so soon before the Interim Committee met.

The Chairman remarked that the coming few days would provide the opportunity to see how far the Board could progress.

Mr. Ortiz said that he could accept the comprehensive agenda and the way in which it had been organized. Certainly, nothing should be added to what was already a heavy agenda, although he had no problem with the reordering of Item 5, as suggested by Mr. Dallara. At the same time, he wondered whether any one of the first three subitems should be singled out as covering program design, which had a bearing on both the extended Fund and the compensatory financing facilities and external contingency mechanisms. As for the heading of Item 4 on the debt situation and strategy, the qualifying wording that would restrict its consideration to developments in market-based approaches should perhaps be deleted. Alternatively, as Mr. Sengupta had suggested, the title of the staff paper that the Board would be discussing in coming weeks could be taken as the heading for Item 4--namely, developments, issues, and the role of the Fund in the management of the debt situation. If reference was to be made to the Fund's financial position it would be most appropriate to do so in that same context, rather than in connection with other issues, such as quotas.

Mr. Enoch said that he too had found the agenda to be both comprehensive and heavy, although he doubted whether any deletions could be made. He had no strong views on the heading of Item 4, and could go along with the deletion of the qualification, to refer simply to the debt situation and strategy, or accept the revised wording proposed by Mr. Sengupta and Mr. Ortiz. The proposed reordering of the subitems on the role of the Fund in adjustment and financing was acceptable; he could even have gone along with combining the two subitems on the compensatory financing and extended Fund facilities, which went hand in hand, even though they had not so far been discussed together. Otherwise, the two items should be listed consecutively on the agenda.

As for Mr. Dallara's suggestion to make more explicit reference to the topics of arrears to the Fund and Bank/Fund collaboration, taking into account the concern about placing items on the agenda that had not been discussed in the Executive Board, Mr. Enoch said that he wondered whether the addition of a reference to program design in connection with the item on the extended Fund facility would not cover Bank/Fund collaboration. The subitem on the Ninth General Review of Quotas, if it were to be understood as referring also to the Fund's financial position, would draw in a number of other issues, including arrears.

Mr. Ovi said that the agenda as proposed was quite acceptable to his chair. The headings were sufficiently broad to enable members of the Interim Committee to take up whatever issues they might want to consider. On the specific points that had been made so far, he had no strong views on changing the heading of Item 4, although he saw a case for some change. Mr. Dallara's suggestions for reordering Item 5 were quite acceptable. The addition of a reference to program design would encompass the issue of Fund/Bank collaboration, as Mr. Enoch had remarked. Although he understood Mr. Dallara's wish to take up the Fund's financial position, he shared the Chairman's concern about not discussing arrears in public. If the issue of arrears was to be taken up, it should be under Item 5, in combination with the quota issue, which would therefore have to be taken up in the informal afternoon session. There again, however, a basic principle needed to be respected, requiring preparation of the various issues in the Board, based on a staff paper and/or discussion.

Mr. Yamazaki said that he wished to make it clear that while he had no objection to discussing the matter of arrears, he did object to taking it up in the context of the Ninth General Review of Quotas. Quota increases were an important subject, and they should be dealt with as such, and not in conjunction with arrears.

The Chairman remarked that he agreed with Mr. Yamazaki, although it could not be overlooked that the Board would have to deal with the question of the attribution of quota increases to member countries in arrears.

Mr. Salehkhou remarked that he had been hoping that the procedures for the informal afternoon session would be the same as those in September 1987. However, he had noted that the afternoon sessions would be restricted informal meetings with very limited attendance, to the great inconvenience of multimember constitutions, especially given the important issues to be taken up in those sessions. He asked whether there was any possibility that the Chairman might reconsider the arrangements and revert to the procedure followed in September 1987 when the informal sessions had been held in the meeting hall.

As far as the agenda itself was concerned, he had little problem with it, Mr. Salehkhou said. His views on Item 3 on the world economic outlook resembled those expressed by Mr. Sengupta. Reform of the international monetary system and exchange rate developments were important issues, and if there was to be any highlighting of topics related to the world economic outlook, it was only fair to highlight those of interest to all constituencies, or alternatively not to highlight any. On Item 5, he shared Mr. Al-Assaf's view that since the Board had not yet reached a conclusion on the review of the extended Fund and compensatory financing facilities, or on the external contingency mechanisms, there should be no linkages made in the related agenda items until the Board's position became clearer.

Finally, Mr. Salehkhou considered that Mr. Kafka's suggestion for an earlier discussion of the provisional agenda was useful. If, as the Secretary had mentioned, the Chairman of the Interim Committee held consultations in Washington at an early stage of preparation of the agenda, it was not to consult the membership in general. Those Directors who were not consulted should be given a chance to do so in the Board before the agenda was prepared.

Mr. Obame remarked that his chair had no major difficulties with the proposed provisional agenda. He could accept an amendment to Item 4 on the debt situation and strategy, along the lines suggested by Mr. Ortiz. The reordering of Items 5 (a), (b), and (c) suggested by Mr. Dallara was also acceptable, although he had had in mind giving members of the Interim Committee some flexibility in taking up the main issue covered by Item 5, namely, the role of the Fund in adjustment and financing. Finally, his chair was not in favor of discussing arrears in the Interim Committee, for the reasons spelled out by the Chairman.

Mr. Massé said that he was in favor of heading Item 4 simply as the debt situation and strategy, thereby leaving somewhat greater leeway to speakers. He had no problem with the reordering of Item 5 proposed by Mr. Dallara, or with the addition of a reference to program design in connection with the subitem on the extended Fund facility. The Fund's financial position, and the related issue of arrears, should preferably not be mentioned as such because the issue of the Fund's liquidity in particular could be taken up in connection with the Ninth General Review of Quotas.

Fund/Bank cooperation was a much wider issue, Mr. Massé considered. although work had been done in sufficient depth to lead to recommendations by the Board for consideration by Committee members at the present stage, it would be better to treat the matter as a general subject, on which Committee members would probably issue general exhortations and admonitions, rather than as a specific agenda item.

In response to a question by the Chairman, Mr. Massé said that he could go along with a heading for Item 4 along the lines suggested by Mr. Sengupta and supported by Mr. Ortiz and others.

Mr. Donoso said that he had no difficulties with the proposed agenda or with the reordering of the subitems on the role of the Fund in adjustment and financing suggested by Mr. Dallara. However, although he could also accept a reference to program design in the context of the discussion of the extended Fund facility, he did not feel comfortable with the idea that some Directors seemed to have in mind of taking up the issue of Fund/Bank collaboration in order to introduce structural reform in the context of the review of the extended Fund facility. He would prefer to discuss Fund/Bank collaboration as a separate issue, as soon as that was possible, together with other methods of implementing the proposals being made in connection with the revision of the extended Fund facility, including additional staffing for the Fund.

Mr. Sengupta commented that as Mr. Ortiz had mentioned, program design was an omnipresent factor in Fund policies on the use of its resources, and it was also relevant to the debt situation. The addition of a reference to program design in connection with the extended Fund facility should not be understood as excluding consideration of the problem of program design in a broader context. He recalled that that issue had been raised also in the G-24 Report, which was covered under Item 6.

The Chairman assured Mr. Sengupta that members of the Committee would no doubt feel free to address the issue at what they considered to be an appropriate time.

Mr. Posthumus remarked that he had been prepared to accept Mr. Dallara's suggestion to add a reference to program design to the sub-item on the extended Fund facility, recognizing the wider relevance of the issue. While it could not be foreseen whether Mr. Dallara's authorities intended to restrict their views on program design to the extended Fund facility, the reference to program design could usefully be taken as implicitly covering Fund/Bank cooperation. His own authorities would take up that issue in discussing the extended Fund facility. There was no need to mention Fund/Bank cooperation explicitly under any item on the agenda.

Similarly, while he shared the Chairman's position on the desirability of not referring explicitly to the arrears problem, he also shared Mr. Dallara's feeling that there should be a place on the agenda, even if not an explicit one, to talk about the issue, which was of greater concern to some than to others, Mr. Posthumus noted. Finally, he could go along with a heading for Item 4 on the debt situation and strategy that reflected the title of the document to be discussed in coming weeks by the Executive Board.

Mr. Zecchini observed that he was not in favor of placing the issue of arrears on the agenda because of the sensitivity of the issue and the lack of preparation on the part of the Board. However, Ministers could have an informal, frank exchange of views on the problem and how to tackle it during their lunch.

The Chairman said that Mr. Zecchini's suggestion would be conveyed to Chairman Ruding.

Mr. Finaish joined others in opposing additions to the heavy and comprehensive agenda, for at least four reasons. The first was the time constraint; the second, the possible negative implications of adding certain items like arrears and possibly Fund/Bank collaboration at the present juncture; the third was the important principle that enough preparation should have taken place in the Board, and fourth, some of the important issues raised by Mr. Dallara and Mr. Sengupta could be taken up under other items, if Ministers so wished. Whether in the Board or in the Interim Committee, it was essential to recognize the simple fact that not every issue could be taken up at the same time. There were many pressing issues before the Board, but attempting to discuss them all, in what was becoming almost a machine-like way, would make it impossible to reach reasonable conclusions.

On the specific items on the agenda, Mr. Finaish said that he supported the view that the heading of Item 4 should be formulated more broadly, along the lines suggested by Mr. Sengupta. He would prefer to retain the ordering of Item 5 as it had been proposed, but could go along with Mr. Dallara's suggestion if that was the Board's general wish.

Mr. Dallara said that he had been pleased to note the interest in accepting his suggestions for reordering the agenda and referring to program design in the context of the extended Fund facility. He accepted the suggestion made by a number of Directors that it was perhaps wise at the present stage to deal with the issue of Fund/Bank collaboration implicitly, as part of whatever issue on the agenda Ministers considered most appropriate. He appreciated the reference by the Chairman to follow-up work in that area in order to better prepare the foundations for further efforts on that front than had been made during the past six months.

On the question of arrears, some members of the Committee, including the Governor for the United States, would probably wish to take up the matter during the actual meetings, Mr. Dallara remarked, although Mr. Zecchini's suggestion to discuss it over lunch was certainly worth recommending for the consideration of Chairman Ruding. At the same time, he begged to differ with those Directors who had suggested that discussion of arrears during the forthcoming Interim Committee meeting would somehow violate the principle of the need for proper preparation by the Board beforehand. There was probably no other issue on which the Executive Board had spent more time, both with respect to specific countries and the six-monthly review of overdue financial obligations to the Fund. If the Board had not yet laid the groundwork, then it was perhaps time for the

b. Operational Budget for March-May 1988

The Executive Board approves the list of members considered sufficiently strong as set out in EBS/88/46, page 2, footnote 2, and the operational budget for the quarterly period beginning March 16, 1988, as set out in EBS/88/46 (3/1/88) and Supplement 1 (3/16/88).

Decision No. 8815-(88/39), adopted March 16, 1988

5. TOGO - STAND-BY ARRANGEMENT AND STRUCTURAL ADJUSTMENT ARRANGEMENT

The Executive Directors considered a staff paper on Togo's request for a stand-by arrangement in an amount equivalent to SDR 13 million and for a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility (EBS/88/36, 2/18/88; and Cor. 1, 3/10/88), together with an economic policy framework for 1988-90 (EBD/88/61, 2/18/88).

The Managing Director 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 March 8, 1988 discussion in Committee of the Whole of a paper entitled: "Togo: Policy Framework Paper."

1. The Executive Directors of the Bank and IDA discussed, in a meeting of the Committee of the Whole, the paper entitled "Togo: Policy Framework Paper."

2. Directors expressed general support for the policy framework paper, noting that this represented clear evidence of Togo's determination to continue its ambitious reform efforts. Over the past five years, Togo has vigorously pursued its adjustment program, and has managed to overcome the fiscal problems which appeared last year. Mention was particularly made of the decision to introduce a degree of flexibility in agricultural pricing. It was noted that Togo was particularly well placed to compete in the export of cash crops; its is already a low cost producer and further improvements can be made.

3. On the question of public enterprises reforms, it was noted that the review of the privatization program would not lead to any major delays in the overall reform program.

4. Directors urged that the industrial sector reforms and liberalization program should be continued with the objective of making industry more competitive. It was noted that an effort should also be made to strengthen competitiveness through improved education and investment in the health sector.

5. Given the fixity of the exchange rate, one speaker noted that the burden of adjustment would have to be achieved through fiscal policy, which implied greater austerity.

6. One Director asked that, in general, the actual growth performance in the recent past should be compared to forecasts of growth presented in earlier policy framework papers. In this context questions were raised as to the optimism of current growth projections, especially in the agricultural sector. The expected high productivity of cotton and food crop farmers embodied in the projections would require close monitoring and careful management of agricultural services.

7. On the composition of the public investment program, it was noted that one third was to be devoted to agriculture and 40 percent to infrastructure to support productive activities.

8. Regarding the social impact of the adjustment, concern was expressed as to whether adequate provision was being made to compensate workers being laid off by the Government. It was noted that much of the decrease in government employment had been achieved by allowing retirements to exceed recruitment. In the private sector, the measures being taken were actually leading to new investment, particularly in privatized firms, which had good prospects of creating a significant number of new jobs.

9. Although the current deficit of Togo was expected to decline from 12 percent of GDP to 6 percent over the period FY 1988 to FY 1990 as a result of the adjustment measures planned by the Government, a substantial financing gap was envisaged. Directors noted that it was important to undertake a careful assessment of the external financing sources available to meet Togo's requirements and to keep the payments deficit within manageable limits. However, a combination of bilateral aid and appropriate rescheduling of debt and continuing support from multilateral institutions will be necessary to support Togo's efforts to undertake adjustment with reasonable economic growth.

Mr. Mawakani made the following statement:

The staff paper correctly reflects the authorities' assessment of the current economic situation and adequately conveys their commitment to the adjustment process.

Since 1983, the Togolese authorities have undertaken a comprehensive reform program aimed at eliminating the internal and external imbalances that have built up over a number of years as well as at improving the growth prospects of the economy. While progress has been achieved in many areas, the economy remains weak and continues to be vulnerable to exogenous developments. In 1987, a combination of such developments, among which declining export receipts, poor weather conditions and a shortfall in external financing contributed to the nonobservance of some of the performance criteria; thus, the stand-by arrangement which had been approved by the Board in mid-1986 became inoperative. Nonetheless, the authorities maintained the thrust of the adjustment program and progress was achieved in reducing the internal and external imbalances, as compared to the previous year.

The Togolese authorities are aware of the difficulties facing the economy and recognize the need to pursue and to strengthen the adjustment efforts so as to remove the structural rigidities. It is in this context that they are requesting Fund support in the form of a new stand-by arrangement covering a 13-month period and the first annual arrangement under the structural adjustment facility.

The program to be supported by the stand-by arrangement is consistent with the objectives of the medium-term policy framework. The authorities will maintain tight fiscal and monetary policies which are expected to reduce the fiscal and the external current account deficits in 1988. Measures aimed at improving resource allocation in the economy will also be implemented. These will be in the areas of producer prices for agricultural products, public enterprises, and trade liberalization. The details of these measures are spelled out in the staff paper and the policy framework paper. It should be noted that in addition to these structural measures, special emphasis will be placed on improving the overall budgetary situation as well as the financial position of the public enterprises.

In the area of fiscal policy, a series of tax increases and new taxes are being introduced. These measures are expected to yield additional revenue representing about 2 percent of GDP. On the expenditure side, the authorities have decided to freeze personnel and most other current expenditures at the 1987 level. Investment expenditure will also be reduced. As a result, overall budgetary expenditure is expected to decline by 3 percent of GDP in 1988. Furthermore, the authorities intend to eliminate all arrears on interest that accumulated during 1987. It is expected that these measures will result in a decline of the fiscal deficit, excluding grants, from 7 percent of GDP in 1987 to 3.6 percent of GDP in 1988.

With respect to public enterprises, the authorities will continue their efforts aimed at promoting efficiency of that sector and reducing government intervention and subsidies. To that end, they are in the process of restructuring the Ministry of State Enterprises and developing a management information system with a view to improving the management of the public enterprises. Action programs aimed at restructuring 12 enterprises will be implemented. In the case of the agricultural marketing agency--OPAT--the authorities are proceeding with a thorough review of its operations. Measures to be implemented include an overhaul of the accounting system, the introduction of an internal monitoring system, a significant reduction in its operating costs as well as in its use of bank credit. Similarly, the national cotton company--SOTOCO--will be restructured along the same lines. As to SONACOM, the state trading company, its monopoly powers will be significantly reduced. It is expected that these measures will also contribute to the improvement of the budgetary process as well as to the reduction of the public enterprises' recourse to the banking system.

Monetary and credit policies in 1988 have been designed to reinforce fiscal policy in order to achieve the external current account target. Overall credit expansion will therefore be kept below the targeted growth of nominal GDP. However, credit to the private sector is expected to increase as the Government reduces its net liabilities to the banking system.

With respect to the medium-term structural adjustment program covering the period 1988-90, the authorities are aiming at three basic objectives:

(i) the achievement of real GDP growth of about 4 percent a year;

(ii) the lowering of the annual rate of inflation, as measured by the GDP deflator, to about 4 percent; and

(iii) the reduction of the external current account deficit, excluding grants, to about 6 percent of GDP by 1990.

In order to attain these objectives, the focus will be on policies to encourage production, increase the private sector's share in the economy, reduce the number of state monopolies, and speed up the liberalization of the economy, among others. It is also expected that the policies to be followed in the fiscal area will increase tax elasticity and ensure sustained growth of revenue. These efforts should result in the fiscal deficit falling to 1 percent of GDP by 1990 and for a reconstruction of government bank deposits. Concurrently, the authorities, with the assistance of the World Bank, will pursue the process of restructuring, privatization, and liquidation of the state enterprises.

The authorities believe that this new package of economic and financial measures is strong and would address the problems facing the economy of Togo. The approval of the present requests by the Board will encourage the authorities to carry through the implementation of the structural reforms of the economy and enable them to mobilize much-needed external resources.

Mr. Rousset made the following statement:

I fully support Togo's program as it emphasizes the structural policies needed to stimulate the Togolese economy over the medium term and embodies the tightening measures required to restore financial stability in the short term.

I do not wish to restate the concerns we expressed during the discussion of the staff report for the 1987 Article IV consultation (EBM/87/162, 11/25/87), in the face of the loosening of fiscal policies of late 1986 and 1987, since those are to be corrected in the 1988 program. Still, I wish to emphasize that however brief the slippages have been, the impact on the fiscal deficit and on the balance of payments deficit has been marked and immediate. This outcome indicates that the progress painfully gained by countries over several years of steady adjustment can easily be jeopardized in a very short period if their effort is relaxed or is not promptly adapted to external developments.

In the case of Togo, I am pleased to note the restoration of the pace of adjustment that the program provides. On the objectives, in light of the strategy delineated in the policy framework paper, a GDP growth objective of at least 3-4 percent a year seems quite realistic. Although it implies increases in export volumes of more than 12 percent in 1989 and 1990, these objectives in fact appear within reach when one considers that total exports for 1990 are projected to be only 15 percent above 1983 levels. Furthermore, the sources of growth are well specified in the policy framework paper, and I can agree with the general strategy designed to foster growth in the agricultural, industrial and trade sectors, namely, increased producer incentives, liberalization of prices and trade, and withdrawal of the state from productive activities which can be run by the private sector. The staff rightly stresses that the effectiveness of these measures will hinge on the availability of credit to the private sector. The success of the stabilization efforts aimed at reducing the fiscal deficit and restructuring the public enterprise sector will thus be a key element of the program.

Regarding the policies to be implemented under the 1988 program, I would say that they are strong, convincing, and realistic. The reduction of the fiscal deficit from 7 percent of GDP in 1987 to 3.6 percent in 1988 is no doubt the cornerstone of the program. Such a reduction is indeed essential if the Government is to reduce its net liabilities vis-à-vis the banking system, thereby allowing for increased credit to the private sector; it is also consistent with the Government's commendable intention to reconstitute its bank deposits with a view to providing a safety margin against a temporary shortfall in revenue.

On the revenue side, the measures already taken to increase the rate of various taxes are projected to increase government revenue by 10 percent. However, since some of these increases cannot be repeated in future years, and given the objective of setting up a taxation system less dependent on the special revenue of public enterprises, we encourage the authorities to speed up the tax reform under study.

With regard to public investment expenditures, the integration of all projects within the public investment program and the review and selection of these projects according to financial and economic criteria is certainly a welcome step. The real challenge for the future will be to identify a sufficient number of projects that would fit within these criteria and support the authorities' development strategy. In this task, the assistance of the World Bank should be extremely valuable.

Regarding structural policies, I fully support the thrust of the policies for 1988 which combine the continued restructuring of public enterprises, the improvement of producer incentives in the agricultural sector, and the speeding up of trade liberalization. Much has already been done in these three areas, but this process must be further pursued if growth is to be generated in the private sector. Elimination of all SONACOM monopolies by December 1988 will be crucial in this regard.

For 1988, the forecast shows that with the implementation of its program, Togo will face a financing gap amounting to CFAF 66 billion, including CFAF 33 billion in external arrears outstanding at the end of 1987. The information in the staff paper clearly indicates that, with the strong financial support of multilateral institutions and bilateral donors, this gap will be fully financed.

Finally, my authorities welcome the Fund's continuing support through the combination of stand-by arrangements and arrangements under the structural adjustment facility; we believe that Togo's efforts and the short- and medium-term nature of its problems fully warrant this support.

Mr. Rieffel made the following statement:

As we noted in the Article IV discussion in November 1987, it is unfortunate that Togo was unable to implement the program that the authorities embarked upon in June 1986. We had high hopes that the 1986/87 program would allow Togo to graduate from the use of stand-by resources, and to be a model for other countries.

We are particularly disappointed because Togo's inability to achieve the objectives of its 1986/87 program was due more to factors within its control than beyond its control. In effect, the benefits of several years of effective policy reforms were lost in a single year. This experience underscores the importance of persistence in the implementation of an economic program, and we trust that the authorities will be more vigilant in implementing their new program for 1988. Given the slippages last year, it is critical that Togo's performance in 1987 be solid.

There is one major difference, of course, between the last stand-by arrangement and the new one--namely, it is accompanied by a structural adjustment arrangement. We have argued that the policy framework process, which provides a foundation for structural and enhanced structural adjustment arrangements, is especially well suited to helping countries like Togo implement comprehensive medium-term adjustment programs. It will be interesting to see if the structural adjustment arrangement we are considering today will contribute measurably to the success of Togo's economic performance this year.

Turning now to the medium-term program, I should begin by saying that the objectives appear appropriate for a structural adjustment arrangement. In particular, we welcome the intention to increase the domestic savings rate from 10 percent of GDP in 1987 to 19 percent in 1990.

More generally, I have not seen any indication in the staff paper or in Mr. Mawakani's statement that the authorities are thinking about converting the arrangement into an enhanced arrangement. I wonder whether this possibility has been considered. If so, the objectives of an enhanced arrangement should go substantially beyond those in the structural adjustment arrangement for Togo. In any case, we would look for stronger measures in five areas, either in the updated policy framework paper for the second annual arrangement or for the first year of an enhanced structural adjustment arrangement.

First, after fiscal consolidation and improvement of the export regime for Togo's traditional export crops--which must be accorded the highest priority in the short term--we believe that one of the most important areas of structural reform is price liberalization. The system of fixed profit margins in particular represents a major obstacle to the growth of the Togolese economy. In future annual programs and policy frameworks, we would expect to see more concrete measures and a faster pace of reform in this area.

Second, the staff paper mentions that the size of the civil service should be reviewed, but I cannot find any reference to such a review in the timetable contained in the policy framework paper. Furthermore, the staff paper states that "the nominal wage bill will need to be unchanged in 1988 and 1989," but I do not see this objective reflected in the policy framework paper. Next year, we would expect to see a limit on the wage bill and a review of the size of the civil service included in the program. Even better would be a commitment to eliminate a specific number of redundant employees.

Third, we have noted a number of measures that will be taken to improve the financial performance of state enterprises that will be retained in government hands, such as developing a management information system. These are welcome first steps, but we hope to see more specific targets in this area in the program for 1989.

Fourth, we welcome the commitment to revise the Investment Code and the Togolese Company Charter this year. We hope the revisions will result in the elimination of the value-added criterion for eligible investments, and a reduction in the required levels of investment and employment.

Fifth, the policy framework paper notes the intention of the Government to liberalize its food crop export policy gradually. We can understand the reasons for adopting a cautious approach, but would expect to see in an updated policy framework paper a concrete liberalization objective in this area that is consistent with the macroeconomic and structural objectives of the economy.

Now let me turn briefly to the program for 1988. As I said earlier, improved fiscal performance will be critical to the success of this year's program. In this connection, we place particular importance on measures that will maintain--if not increase--the ratio of government revenues to GDP.

In a different vein, I have noted the reference in the staff paper to a new mechanism that is being established to fix producer prices in a more rational way. I would appreciate some additional information on this mechanism. In particular, I would like to know if the mechanism has been modeled on an approach taken by some other country, or if this mechanism could be usefully adopted by other countries as a device for promoting traditional exports without discouraging the diversification needed to reduce vulnerability to changes in world prices and demand.

Finally, this chair has often urged the staff to develop a full set of structural benchmarks for structural adjustment arrangements. While the benchmarks for the first annual arrangement are reasonable, they do not appear to be as comprehensive or as ambitious as those contained in other arrangements.

In conclusion, we appreciate the work done by the staff to help the Togolese authorities recover the momentum lost last year, and are pleased that the authorities have once again demonstrated a capacity to implement needed reforms before serious damage was done.

At the same time, we urge the authorities to move vigorously in areas where they have the ability to set the pace--particularly in the implementation of structural reforms--and to avoid waiting for others to offer temporary palliatives such as debt relief that do nothing for the economy beyond the short term. The cart can go faster if the horse is in front, and in this case the stabilization measures that Togo implements in 1988 will have a major influence on the pace of growth of the economy for years to come.

We support the proposed decisions, and ask that our expressions of support be conveyed to the authorities.

Mr. El Kogali made the following statement:

I support Togo's request for a stand-by arrangement and for arrangements under the structural adjustment facility. I have noted that all leading economic indicators show a serious deterioration in the Togolese economy in 1987. The growth rate of GDP fell to 1.9 percent from an annual rate of 3 percent the previous year, the budgetary deficit (grants included) rose to 5.1 percent of GDP from 4.6 percent, while the overall balance of payments deficit reached an all-time high of SDR 87.6 million. The balance of payments deficit was mainly due to a sharp drop in world market prices of Togo's main exports. However, a careful review of the evolution of the Togolese economy until last year (1987) when external uncertainties posed a challenge that indeed continues to cloud the medium-term horizon for Togo's major exports--coffee, cocoa, cotton, and phosphates--convinces one that it had become necessary for the authorities to embark on a structural adjustment program. The 13-month stand-by arrangement is equally necessary to support the financial adjustment in the short run.

On the supply-side measures, I support the Government's policy of stimulating GDP growth, to be raised progressively from an annual rate of 2.8 percent this year to 4.9 percent by the end of the structural adjustment program in 1990. The strategy relies mainly on incentives and the promotion of the private sector. With respect to the role of incentives, given the particular international and regional situation impinging on the main exports of Togo, the producer price policy must take into account not only increases in real terms, as has been amply done in recent years, but the need to avoid movements of goods across the borders and to diversify production. We therefore welcome the adoption of the future producer price-setting formula outlined on page 6 of the policy framework paper.

We note that a major thrust in the structural reforms for 1988 is the intensification of public enterprise restructuring. Indeed, considerable achievements were already accomplished under the programs supported by three consecutive stand-by arrangements from 1983 until 1986 during which 8 public enterprises were closed, 11 privatized, and many rehabilitated to enhance their efficiency. While commending the authorities, one must sound some words of caution. The first is that although this public enterprise reform has obvious efficiency benefits in the use and allocation of resources and in lessening the fiscal burden, current experience elsewhere has shown that this process is fraught with pitfalls and should be pursued with considerable caution to avoid substantial potential capital losses.

Our second concern relates to the need for flexibility. If the country is to find the right buyers for the enterprises being privatized, then it must have time; there is no way of knowing in advance when the negotiations will be completed. We therefore call on the management to interpret the relevant benchmarks with appropriate flexibility in the field of public enterprise restructuring. With regard to trade and commerce, we fully acknowledge the important role it plays in the economy of Togo and endorse the various measures aimed at further liberalization and revitalization.

As to the financial policies, I recognize that the larger burden of adjustment must fall on fiscal policy, given the financial imbalances existing in 1987, the accumulation of arrears, the external debt service ratio standing at 40.5 percent, and the limited room for maneuver on the exchange rate policy. What I would like to stress, however, is the degree of fiscal adjustment implied in the program, the need for flexibility on the part of Fund management, and the need for timely assistance from the international donor community.

It is worth noting that the authorities have set out to implement a very ambitious adjustment effort involving the reduction of the budgetary deficit (including grants) from 5.1 percent of GDP in 1988 to a virtual surplus of 0.1 percent of GDP in 1990. Although the staff has pointed to the completion of the large Nangbeto project as explaining the sharp drop in capital expenditure from CFAF 50 billion in 1986 to CFAF 32 billion in 1987, yet from 1988 to 1990 capital expenditure is to rise from only CFAF 27 billion to CFAF 34 billion. In the same period, current expenditure is to rise in nominal terms at the rate of 1 percent per annum, implying a sharp decline in real terms. This ambitious adjustment effort indicates clearly that there is no room for slippage on the part of the authorities if they are to attain by 1990 the medium-term objectives of a viable external payments position with a sustainable GDP growth rate. It also shows convincingly that there is need for external support. The staff has shown that even with the external financing available from the Fund and the World Bank in 1988, there will still be some financing gap. We therefore strongly urge bilateral donors, the Paris Club, and the London Club, to put forward their contribution in a timely fashion to ensure the success of Togo's financial and structural adjustment program.

This leads me to the more general question which I have raised before with regard to the design of Fund programs that can assist African countries to attain external payments viability and higher rates of growth. As in a number of other African countries, Togo had several consecutive Fund-supported programs--five, to be specific, since 1979--in addition to World Bank loans which progressively reduced imbalances until 1985. But as Mr. Mawakani points out in his opening statement, "while progress has been achieved in many areas, the economy remains weak and continues to be vulnerable to exogenous developments." My question is whether the progress set forth to be achieved by 1990 will be sustainable or whether the problems are simply being postponed once again?

Mr. Grosche made the following statement:

I very much welcome the authorities' intention to pursue their adjustment efforts in the context of Fund-supported arrangements. The program objectives are ambitious, but appropriate: the fiscal deficit is to be reduced by 6 percentage points of GDP to just 1 percent of GDP in 1990, and the viability of the balance of payments could be restored by late 1990. These projections are subject to significant uncertainties, such as adverse developments in Togo's export markets. Therefore, no slippages in policy implementation can be allowed if the program's objectives are to be attained.

As to the program's specifics, first of all, I welcome the authorities' commitment to structural reform and to the promotion of private sector activity. As a prerequisite, public sector credit demand will have to be restrained significantly. The envisaged reduction in the fiscal deficit is indeed the cornerstone of the adjustment program. Given past experience, the authorities will have to concentrate all their efforts on this goal. The planned increase in fiscal revenues, the expenditure cuts, and, last but not least, the improvement in the efficiency of public enterprises are necessary steps toward a healthy and sustainable fiscal position. In addition, the abolishment of "extrabudgetary outlays" should lead to an improved monitoring of the fiscal policy stance. I share the staff's view that the authorities should review their tax system in a comprehensive fashion sooner rather than later to prevent a further erosion of tax revenues.

As to the structural features of the program, I attach great importance to the abolition of the monopolies of the state trading company on some basic commodities; their elimination should lead to markedly lower retail prices benefiting especially the poorer section of the population. Considering the Board's discussion of the implications of Fund-supported programs for poverty, I think that this is a good example of how the Fund can help alleviate poverty within the context of a Fund-supported program.

I am disappointed though that no decision has been taken yet as to the elimination of price controls on the sale of locally produced industrial goods. To be sure, the announcement of a more market-oriented economic strategy and the promotion of the private sector are objectives to be welcomed. But continued state intervention in the market process does not lend support to these objectives. I recognize that the system of fixed profit margins has been introduced in order to avoid unjustified profits or exploitation. I believe, however, that there are better ways to achieve this goal; the ongoing process of trade liberalization will lead to increased competition and should help to keep profits at levels that are not too high but sufficient to generate more investment and growth.

Speaking of growth, I would like to caution against the setting of growth targets that are perhaps too ambitious. Clearly, structural reforms, which are often hampered by vested interests, are easier to implement in a growing economy. But how realistic is it to assume that an increase in growth rates from about 2 percent currently to about 5 percent can be achieved? Will this increase not impose quite a heavy burden on the administrative capacity of the Government and the Togolese economy in general? Moreover, it must be kept in mind that although the underlying investment program is expected to be financed through external assistance on concessionary terms, it will nonetheless add to the debt burden of the economy.

Finally, two more general remarks. I noted that the staff paper is almost silent on exchange rate and interest rate policy. Of course, I am aware that under present circumstances Togo has no room for maneuver in these areas since it is a member of the West African Monetary Union. Nonetheless, I feel that a staff assessment of the adequacy of exchange and interest rate policy would have been helpful, in particular since the authorities are embarking on an ambitious adjustment program that focuses on the mobilization of domestic savings and the strengthening of private sector activity. If exchange and interest rates are not adequate, the burden of adjustment will have to be carried by cost-cutting and productivity-raising measures alone. Such measures are difficult to implement, and could hamper economic recovery. Maybe the staff could offer a brief comment on the policy mix in general and the adequacy of exchange and interest rate policy in particular.

On procedures, I take it from the staff paper that discussions with Togo's official and commercial creditors are scheduled for March 21-25. I have no difficulty with the staff's assessment of the likelihood that the financing gaps for 1988 and for the following years will be closed. The staff certainly has sufficient reason to assume that the requested reschedulings and their terms do not pose major problems to either party and will not unduly prolong the closing of the financing gap.

With these observations, I can support the requests for a stand-by arrangement, a three-year structural adjustment arrangement, and the first annual arrangement thereunder.

Mr. Al-Assaf made the following statement:

If Togo is to achieve both economic growth and financial stability, the authorities must address their structural and financial problems quickly and effectively. This is especially true in light of Togo's substantial reliance on four key commodities whose world markets are not expected to be buoyant. The proposed stand-by arrangement and the arrangements under the structural adjustment facility before us provide Togo with ample opportunity to pursue the much needed adjustment effort.

The central feature in the proposed adjustment program is the authorities' reinstatement of fiscal discipline. Fiscal targets should be adhered to, and all expenditures should be integrated into the regular budgetary process, in order to avoid extrabudgetary outlays. The tax measures, programmed in 1988, are a welcome step, yet a comprehensive overhaul of the tax system is clearly warranted, given the need to raise fiscal revenues by about 2 percent of GDP a year throughout the program. In this respect, the envisaged replacement of contributions by public enterprises to the government budget with regular procedures for taxation is a welcome step.

The return to fiscal discipline, and hence the success of the adjustment program, is linked to the timely and effective implementation of structural reform. If government revenue is to be enhanced, policies to liberalize producer prices and restructure public entities are needed, as they would reinvigorate the productive sectors. Measures to increase productivity and diversify output in the agricultural sector are welcome, especially the restructuring of OPAT, the agricultural marketing agency. Furthermore, in order to curtail expenditures, the divestiture program should be intensified and sustained, and the performance of the remaining public enterprises improved, as public enterprises continue to impose a drain on the scarce government resources. As for the other sectors, additional measures to strengthen the incentive framework and expedite trade liberalization are also needed.

More generally, the present program entails a substantial adjustment effort, and hence will require a strong and determined political commitment from the authorities. The success of this program presupposes a smooth and timely implementation of the various measures envisaged. It is imperative that the whole program is effectively undertaken, as any hesitation may prove detrimental to the entire effort. Furthermore, in light of Togo's vulnerability to external shocks, the authorities should stand ready to undertake further contingency measures, in order to ensure that the desired objectives of the program are attained. The most recent adjustment experience further demonstrates the necessity of such measures. I support the proposed decisions.

Mr. Enoch observed that the Togolese authorities had clearly faced a difficult external environment during the past year, which had been compounded by policy slippages that had contributed to undermining the adjustment efforts of the past couple of years. Currently, the main priority seemed to be the re-establishment of macroeconomic stability. It was obviously necessary to strengthen the fiscal position, and he had been encouraged to note that the authorities had already announced some measures to improve revenue performance. Greater expenditure restraint would also be required. He noted in particular the importance of restraining the costs of running the civil service, following the substantial increase in the wage bill in 1987 and in light of the authorities' desire to increase salaries at some levels.

At the same time, continued efforts would be needed on the structural front if growth was to be promoted over the medium term, Mr. Enoch continued. In that context, he had noted the dramatic increase projected in the domestic savings rate--from 9.6 percent in 1987 to 18 percent in 1989. As the staff had pointed out, further improvements in productivity would also be required if competitiveness was to be improved. In that connection, he had been glad to learn that the authorities were continuing with their privatization program and that they were taking steps to improve the efficiency of agricultural marketing arrangements. The removal from the state trading company of the many of the remaining trading monopolies should contribute to increasing efficiency within the economy and actually lead to a reduction in the prices of some of Togo's key commodities.

According to Table 5 of EBS/88/36, a financing gap was expected for 1988, Mr. Enoch observed. His chair was always deeply concerned about financing gaps. In Togo's case, however, he had been largely reassured to read in the staff appraisal that that gap could be expected to be filled, in particular by conventional debt rescheduling through the London and Paris Clubs, with which negotiations were understood to be imminent. As his chair had stated during the Board's recent discussion of Malawi's request for a stand-by arrangement (EBM/88/28, 3/2/88), it would be helpful in future if, where expected sources of financing could be identified, those could be indicated in the tables, at the very least as a memorandum item, so that it could be determined immediately that the gap would be filled.

On a more general point, Mr. Enoch said that he had inevitably been struck by the opening sentence of the background section of the staff paper, which stated that "the prosperity of Togo--a small open economy with an important commercial banking sector and sizable agricultural and mineral exports--depends, to a large extent, on developments in neighboring countries as well as on world commodity markets." Unfortunately, that statement seemed to be the extent of regional surveillance. In the same vein, although the staff paper had contained helpful information about some of Togo's key producer prices, a fuller table, showing producer, retail, and export prices for a wider range of products would have been useful.

Two other areas had not been mentioned in the staff paper, Mr. Enoch said. First, as Mr. Grosche had mentioned, there was the possibility of a change in the exchange rate. While he recognized the institutional constraints in that respect, his chair had noted in a number of other contexts its concern that the absence of possible exchange rate action could mean that excessive reliance might occasionally have to be placed on fiscal adjustment, thereby leaving the Fund to be identified undesirably with unnecessary rigidity. He echoed Mr. Grosche's idea of the Fund possibly looking at use of the exchange rate instrument in some circumstances. Second, like Mr. Rieffel, he had noted the absence of any reference to the enhanced structural adjustment facility, Mr. Enoch concluded. While conversion of the structural adjustment arrangement to an enhanced arrangement might be appropriate in due course, he wished to state at the present juncture that his authorities would expect to see significant additional structural measures, particularly on trade liberalization and on reform of the parastatals.

The staff representative from the African Department said that negotiations with the Togolese authorities on the program had been started in November-December 1987, before the details of the enhanced structural adjustment facility had been put in place. In the staff's judgment, it would have been imprudent, given the financial situation in Togo, to delay the negotiations until the enhanced facility came into effect. The authorities had indicated their interest, once the stand-by arrangement and the first annual arrangement under the structural adjustment facility were completed, in seriously considering the possibility of an enhanced structural adjustment arrangement. In line with what Mr. Grosche and Mr. Enoch had stated, the staff had told the authorities that a program to be supported by an enhanced structural adjustment arrangement would have to show fairly fundamental structural progress, including measures going beyond what had been included in the program under the current structural adjustment arrangement.

There was a brief paragraph on interest rates on page 26 of EBS/88/36, the staff representative noted. Obviously, as Mr. Grosche had mentioned, the staff was working within institutional constraints, on both interest rate policy and exchange rate policy. Nevertheless, as stated in that paragraph, the staff felt that there was some room for flexibility in interest rate policy, and had pointed out to the authorities that each member of the West African Monetary Union could very well take a position within the union; certainly, the staff would support the authorities if they asked for greater flexibility in setting interest rates.

The Chairman remarked that it was essential for each country, as far as interest rates were concerned, to take the stance appropriate to its circumstances.

The staff representative from the African Department added that a related issue was the exchange rate. Given the constraints that existed, the staff had not felt able to go further than the rather oblique reference in the opening paragraph of the staff appraisal to the loss of export competitiveness. However, there was no doubt that the exchange rate could become an important issue for nontraditional exports. The exchange rate also mattered as far as producer prices for the three major export crops were concerned. As indicated on page 21 of EBS/88/36, the marketing board still had a surplus on coffee, cocoa, and cotton at current world prices, current exchange rates, and current producer prices. As long as that situation existed, and as long as the possibility existed of reducing the costs of domestic processing and marketing, the question of the exchange rate adversely affecting the output of those three commodities had not yet arisen. The staff would keep the situation under review, and any changes in it would be taken into consideration.

The producer price mechanism had not been covered in detail in the staff paper because at the time of the staff mission, the precise producer price formulas had not yet been settled, the staff representative noted. The World Bank staff had informed him that those details had been negotiated in February, and the resulting agreement would come into effect at the end of March. The agreed formula essentially established a floor price for the three major crops, with the differential between that price and the world market price being distributed between the farmers, the processing agency, and the Treasury. The idea was that the floor price should not be varied year after year so that the farmer had a steady stream of income; rather, the amounts received by the Treasury would be varied, with a supplement to the farmer over and above the floor price. Actual producer prices for the coming season had not yet been fixed, but the staff's understanding was that they would not differ greatly from those of the previous season. The same formula had apparently been applied in the Central African Republic, for cotton. There were variations on this scheme in other countries; for instance, in Ghana, farmers received a bonus over and above the producer price.

In the programs that the Fund had supported during the 1979-85 period, the staff representative from the African Department recalled, the Togolese authorities had been very willing to consider the possibility of seriously reducing the size of the civil service. They had in fact done so, and had kept its size under review. The policy of the Government was one of attrition. For instance, as civil servants retired, they were not being replaced. Although no immediate further steps to reduce civil service employment were foreseen, the staff believed that, in view of the tight fiscal situation, the issue should be kept under review and reconsidered in the context of the program. On the wage bill itself, the average civil service wage was fairly low, and the increase of 16 percent in 1987 could not be repeated, if the fiscal stance was to be maintained and lead to an improvement in the fiscal deficit. The World Bank and the Togolese authorities were currently discussing an increase in wages of selected groups in the civil service. As Directors would have noted, the program for 1988 included an increase in the allocation for customs and income tax staff simply because they were representing an important source of improving government revenue.

Mr. Mawakani said that he wished to underline the fact that the Togolese authorities had shown their determination to sustain the adjustment process. That determination was materializing in the effort in the public sector, where personnel expenditure would again be frozen, a sacrifice since salaries in Togo were already quite low. The authorities hoped that the reforms they were implementing would improve, in the medium term, the overall economic situation of the country.

The support of Executive Directors for his authorities' requests would help them to obtain additional resources for the development of the economy, Mr. Mawakani concluded.

The Executive Board took the following decisions:

Stand-By Arrangement

1. The Government of Togo has requested a stand-by arrangement in an amount equivalent to SDR 13 million for a period of 13 months from March 16, 1988 to April 15, 1989.

2. The Fund approves the stand-by arrangement set forth in EBS/88/36, Supplement 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 8816-(88/39), adopted
March 16, 1988

Structural Adjustment Arrangement

1. The Government of Togo has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility.

2. The Fund notes the policy framework paper for Togo (EBD/88/61).

3. The Fund approves the arrangements set forth in EBS/88/36, Supplement 2.

Decision No. 8817-(88/39), adopted
March 16, 1988

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/88/38 (3/11/88) and EBM/88/39 (3/16/88).

6. THE BAHAMAS - TECHNICAL ASSISTANCE

In response to a request from the Bahamian authorities for technical assistance in the area of budgeting and financial reporting, the Executive Board approves the proposal set forth in EBD/88/77 (3/9/88).

Adopted March 15, 1988

7. ANNUAL REPORT, 1988 - OUTLINE AND PROCEDURES

The Executive Board approves the outline of the 1988 Annual Report and the proposed procedures for its consideration as set forth in EBD/88/75 (3/4/88).

Adopted March 11, 1988

8. EXECUTIVE BOARD TRAVEL

Travel by an Assistant to Executive Director as set forth in EBAP/88/64 (3/14/88) is approved.

APPROVED: November 10, 1988

LEO VAN HOUTVEN
Secretary