FOR AGENDA

EBS/87/46

CONFIDENTIAL

February 27, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Structural Adjustment Facility (SAF) - Review of Experience

There is attached for consideration by the Executive Directors a paper reviewing the experience under the structural adjustment facility (SAF), which has been scheduled for discussion on Friday, March 27, 1987.

Mr. Hino (ext. 8379) or Ms. Kirmani (ext. 4508) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Structural Adjustment Facility (SAF) - Review of Experience

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments) 1/

Approved by C. David Finch

February 27, 1987

Contents

1/ This paper has benefited from comments by the World Bank staff.

Contents

I. Introduction and Issues for Discussion

In recent months Executive Directors have expressed interest in reviewing the operations of the Structural Adjustment Facility (SAF) which was established on March 26, 1986. 1/ This paper is intended to provide a basis for such a review.

The SAF was conceived with at least three major innovative features. First, SAF arrangements require a comprehensive three-year policy framework which incorporates more explicitly than in most previous Fund facilities the structural policy elements of a member's reform program. Second, the process of collaboration with the World Bank was formalized through the requirement of joint assistance to a member country in the formulation of the policy framework paper (PFP) and of common negotiation of the final product, as well as through involvement of the Bank Board in its review. Third, there was an expectation that the PFP/SAF process would be a catalyst for additional financial resources including, possibly, matching resources from the Bank and associated resources from other multilateral and bilateral sources over and above what would have been available in the absence of SAF-supported programs. While use of resources under other Fund facilities often catalyze financing from third parties, the explicit recognition of, and calls for, association of multilateral and bilateral concessional resources was an integral part of the initial proposals on the SAF discussed by the Executive Boards of the Fund and the Bank.

The above three features were closely interlinked. The formal involvement of the Bank was intended to assist the authorities in formulating the envisaged comprehensive structural adjustment program through utilizing the Bank's specialized expertise. In turn, the decision to embark upon well-designed, comprehensive programs which had the explicit backing of both the Bank and the Fund was expected to elicit the confidence and support of the international community in the form of additional resources, thereby making the SAF more attractive to eligible member countries. This expectation coincided with the expression of increasing interest by bilateral and other multilateral agencies in providing aid to support policy reform.

During the Board discussions on the proposed facility, a broad spectrum of views prevailed among Directors on matters critical to the way in which the use of SAF resources should emerge. In these circumstances, it was perhaps not surprising that the decisions finally reached were agreed to only with reluctance on the part of at least some

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1/ See "Use of Resources of the Special Disbursement Account - Further Considerations" (EBS/86/53, 3/4/86, and Supplement 3, 3/31/86); and the Chairman's Summing Up at the Conclusion of the Discussion on the Special Disbursement Account (Buff 86/61, 3/27/86).

Directors on certain features of the SAF. 1/ The reactions and comments of Directors in the context of specific requests for the use of SAF resources have continued to reflect these different perspectives. It is particularly important, therefore, to take stock of the operations of the facility since its inception in order to examine the extent to which the intended benefits are being realized, and to consider, in light of the experience thus far, its further evolution.

When approving the decisions establishing the SAF, the Board indicated that management and staff should be flexible in devising operations to implement those decisions so as to expedite the use of SAF resources by eligible countries. At the same time, however, substantial new ground had to be broken in establishing these operations: new procedures had to be put in place, while others, especially regarding collaborative operations between the Fund and the Bank, had to be adapted and strengthened; the concept of a policy framework paper had to be given substantive content; and medium-term programs that better married fundamental structural reform--including in the real sector--with macroeconomic and financial policies, had to be developed and agreed upon with eligible member countries. These requirements inevitably made difficult the start-up operations of the SAF, especially in light of the varying views that persisted in the Board and in other quarters on certain issues. Moreover, a cautious, evolutionary approach appeared appropriate in the light of the uncertain implications of these new procedures for the operations of the World Bank--and, indeed, for the involvement of bilateral and other multilateral donors--if the PFP/SAF process was to play the expected catalytic role.

While adhering to such an approach, progress has been made. Collaboration between the Fund and the Bank has been significantly enhanced, especially in the context of the joint development of policy framework papers and the negotiation of those documents with authorities. In all cases to date, draft PFPs have been agreed between the two institutions and, on the basis of those drafts, negotiations have been conducted by missions in which staff from both institutions were present with authority to agree (ad referendum) to modifications. Collaboration between the institutions has been founded on the principle that full agreement must be secured on all major issues. These include the member country's macroeconomic prospects and the main policies underlying those prospects, and the diagnosis of the structural problems confronting the country and the broad policies necessary to address those problems.

A more clearly defined concept of the policy framework paper has been emerging and content has been given to SAF programs in the

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1/ The March 1986 Summing Up of the Board meeting at which the SAF decisions were approved (Buff 86/61) noted that "It was agreed, although with a certain reluctance by some Directors, that it would be useful to prepare a policy framework paper . . ." (p. 1).

arrangements approved thus far. On the latter, there has been progress in heightening the attention given to improving the prospects for medium-term growth, whilst at the same time fostering improvement in the balance of payments. All programs have foreseen a substantial increase in investment and, in most, a decrease over the three-year SAF program period in the current account deficit in the balance of payments (in relation to GDP). The implied increase in domestic saving was to be derived in almost all cases primarily from a reduction in the overall deficit of the public sector; but measures have also been introduced to increase the incentives for private savings. All programs have emphasized improvements in pricing, and in institutional and marketing structures as a means of increasing the efficiency of resource use. Greater attention is also being paid to the composition of spending in the public sector to improve the efficiency and quality of output in that sector, and to improve productivity in the economy as a whole.

A clearer standard is also emerging in terms of the achievements to be expected in SAF arrangements. The design of SAF programs has shared a common characteristic with stand-by arrangements regarding the fundamental objective of external viability to be achieved through the adjustment effort. At the same time, the greater concessionality and longer maturity of SAF resources allows for a slower pace of adjustment, and the heightened focus given to medium-term issues is providing scope for greater attention to the underlying structural problems that must be addressed if sustained adjustment with growth is to be fostered in these countries.

While there is a feeling of better direction emerging in SAF operations, finding that direction has at times been difficult. Inevitably, the different emphasis on certain issues evident in the discussions leading to the SAF decisions has carried over to the process of developing specific standards and procedures, and has emerged in the context of discussions on individual country cases. For example, some Executive Directors, as well as the authorities in some SAF-eligible countries, have indicated that, in their view, the programs advocated by the staff were inconsistent with the conditionality they expected to be associated with the use of SAF resources. In a number of cases, the implied conditionality has been challenged as not commensurate with the amount of resources available. Others have found that SAF programs were somewhat difficult to negotiate because of the more detailed requirements on structural and other efficiency-oriented policies.

Other concerns were expressed by the authorities of SAF-eligible members about the implications for Bank lending of formal involvement of the Bank in PFP negotiations. Some have asked, for example, whether failure to agree on PFPs or, subsequently, to be in some way out of compliance with the terms of a SAF arrangement, could adversely affect loan disbursements or, more generally, the availability of IDA loans. Questions have also been raised as to whether the PFP process implied "double conditionality" in that certain elements of conditionality would apply to both SAF loans and Bank lending. Some authorities also noted

that the requirement to work on the most important economic policy problems with the staffs of both institutions put a heavy burden on their scarce administrative capacity. Again, the size of SAF loans was implicitly related to the amount of time and effort required to satisfy the procedural and substantive requirements of a SAF arrangement.

Questions about certain aspects of the emerging PFP/SAF process have also been raised within the Fund and the Bank. The preparation of PFPs has been a very time-consuming, sometimes frustrating, process and the procedures involved are inevitably complex given the differing time frame of operations of the two institutions. This has been the case even though most of the loans approved to date have been for relatively "easy cases," i.e., for countries in which much of the requisite analysis had already been prepared in the context of Fund stand-by arrangements (SBAs) or the Bank's adjustment lending. Inevitably, these concerns led to a questioning of the cost effectiveness of the PFP process in the sense that the required analysis might be more economically obtained by strengthening the informal collaboration that generally takes place in the context of the use of other Fund resources. The view has at times been expressed that the work required to develop policy framework papers would be worthwhile only if the PFP was to be used outside the Bank and Fund by bilateral and other multilateral agencies in such a way that gave rise to additional concessional resources for countries committing themselves to substantive adjustment programs.

In view of the close association between many of the issues that have arisen and the expectation that the PFP/SAF process would catalyze additional resources, a Fund/Bank staff team 1/ visited the capitals of some of the major donor countries and the European Communities to discuss with Treasury and aid officials their view of the potential role to be played by the PFP in the aid process and the prospects for additional aid resources to be associated with SAF- or PFP-related arrangements. Given the limited experience to date with policy framework papers and with the PFP/SAF process, these visits also provided an opportunity to better acquaint some bilateral aid agencies with evolving procedures. The officials with whom the mission met were generally of the view that, potentially, the PFP could serve a very useful purpose in providing a consistent policy/financial framework that would help aid agencies better assess the level and composition of their assistance to the subject country. Various views were expressed as to the form PFPs should take if they are to be more effective in performing this function. This positive view of a potentially important role for the

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1/ Discussions were held by a Fund-Bank staff team comprising Messrs. Boorman (head) and Hino (both from ETR), and Ms. Fox (Bank) in Bonn, Brussels, London, Ottawa, Paris, Rome, Tokyo, and Washington in December 1986 and January 1987. Mr. Byrne from the Paris Office participated in the discussions in Europe. Mr. Choksi was the Bank representative for the meetings with U.S. officials.

PFP notwithstanding, there was little indication provided during these visits that significant additional bilateral resources were likely to be forthcoming in the near future, either through direct association with SAF programs or through parallel program aid operations. There was some indication, however, that the allocation of aid resources could be affected to some extent through the PFP/SAF process.

As regards multilateral resources, the Bank continues to extend adjustment lending for members prepared to undertake the required reform measures. Bank management has suggested that PFPs, as an indication of the authorities' commitment to the adjustment process, represent a significant input into the Bank's decisions on whether to embark on or continue programs of adjustment lending. Bank management has also indicated that for those countries in which PFPs and SAFs are agreed, larger levels of adjustment lending are likely to be available than for those countries where this is not the case, although there is not necessarily a direct causation between the PFP and Bank adjustment lending. The recently concluded IDA-VIII agreement indicates that US$3.0-3.5 billion would be available to be used to support adjustment lending in conjunction with SAF resources, to the extent feasible, in eligible countries. The Bank staff are now working out the country allocations under IDA-VIII.

The limited immediate prospects for association of bilateral resources or multilateral resources beyond those of the World Bank with the PFP/SAF process inevitably raises serious questions about the fundamental structure of the SAF. However, as the indications on the additionality of resources are uncertain rather than wholly negative, it is probably premature to address these questions at this time. In light of these considerations, this review paper is being put forward more in the nature of a progress report than as a blueprint to make operational a specific alternative vision of the SAF. Therefore, while the paper raises specific operational issues for guidance from the Board, it is generally assumed that the present broad outline of the facility as it is emerging will be maintained for the immediate future. At the same time, it will assist management and staff if a clearer vision of the potential seen by Directors for the PFP/SAF process emerges from this review. In this light, the following issues need to be addressed.

1. Role of PFPs

Beyond the usefulness of the PFP in providing an agreed medium-term context for the SAF and IDA adjustment lending between the member country and the Fund and the Bank, respectively, what role is ultimately foreseen for the PFP in aid coordination? Is it sufficient if the PFP serves only to encourage greater consistency of views and more formal collaboration in the operations of the Fund and the Bank? Do the authorities of SAF-eligible countries see the PFP as a document that they could actively use to help streamline some aspects of their relations with various multilateral and bilateral agencies, to ensure consistency in the activities of these agencies, to direct resources to

sectors and projects that the authorities find most productive, and to harness additional concessional resources? Similarly, do aid agencies see a substantive role for the PFP in the broader bilateral aid mobilization and coordination process? The staff sees merit in a broader role for the PFP, in particular in ensuring that donors and lenders are aware of the medium-term framework and the broad priorities for policies and investment in recipient countries. A more ambitious role could also be envisaged for the PFP if it were to encouarge greater association of resources with the PFP/SAF process. It must be recognized, however, that by all indications, developing the modalities (both within governments as well as within the Fund and the Bank) for a closer involvement of major bilateral donors in the PFP process to help mobilize additional bilateral resources is likely to take substantial time with very uncertain returns. Moreover, such an approach gives the PFP process an air of permanence in the aid coordination process which goes beyond the limited time horizon of the SAF as now structured.

It must also be recognized that the coordination process is inherently time-consuming. If bilateral donors are to be given an opportunity at an early stage to have an input into the PFP process, as has been suggested by a number of them, this may result in slower processing of SAF requests. Such an enhanced role for the PFP would in all probability require an even greater commitment of staff resources and more reliance than hitherto on the two-step process whereby the PFP is negotiated and considered by the Boards of the Bank and the Fund prior to the consideration of the member's SAF request.

The role seen for PFPs has a bearing on the content and character of the PFP. These documents may be more widely useful if they reflect a more in-depth analysis and identification of macroeconomic and structural problems and of the sources of growth; the authorities' strategy, priorities and financing requirements; and an overview of the nature and extent of macroeconomic and structural reform to be sought over the next three years. If the PFPs concentrated primarily on these issues, the more specific policy commitments intended to be pursued by the member over the next three years could be discussed in the letter of intent requesting a SAF loan or in Bank lending documents. This form of PFP would (i) help PFPs serve as "steering briefs" for bilateral and multilateral aid agencies by permitting wider circulation of these documents outside the Fund and the Bank while maintaining the confidentiality of Fund and Bank lending arrangements; (ii) keep discussions of specific policy undertakings properly in the context of the lending arrangements of the two institutions; and (iii) minimize the overlap of conditions between SAF arrangements and Bank lending. Thus, the staff sees merit in shifting the focus of the PFP somewhat toward the direction described above.

In addressing the issues posed above, one important factor would be the time horizon of the PFP exercise. Will the PFP remain an integral element governing use of the resources of the Special Disbursement Account (SDA) beyond the period of Trust Fund reflows? Will there be a

role of the Fund in the PFP process independent of use of SDA resources? This issue will be of critical importance for the review of the SAF that must take place before May 1988; however, the direction provided by the Board in the current review will have an important bearing on the options available at that time.

2. Amount of SAF loans and associated resources

At the time the SAF was established, it was envisaged that access could be enlarged over time, depending on the pace of members' qualifications for SAF arrangements and the evolution of the SAF's finances (see EBS/86/53, 3/4/86, pp. 12-17), and that reviews for this purpose would be conducted before the initiation of disbursements for the second and third years of members' arrangements. 1/ On the basis of amounts available to the SAF, prospective Trust Fund reflows, and the experience to date with commitments and disbursements, as discussed in more detail in Annex I, the staff concludes that it would be possible to increase the amount of access for the second year of members' arrangements to 20 percent of quota, or perhaps slightly higher, bringing total access under the three-year arrangements to at least 53.5 percent of quota. 2/ If Directors agree, the staff will prepare a short paper presenting a decision for approval on a lapse-of-time basis, pursuant to paragraph 4 of the SAF regulations. 3/

Notwithstanding the increase in access to SAF resources, the size of SAF loans remains modest and, therefore, it is of paramount importance that substantial bilateral and multilateral resources be associated with the PFP/SAF process if the structure of the facility is to continue to be appropriate. What are the prospects for the PFP/SAF process to generate additional resources for countries that commit themselves to this process and what forms might that association take? Is it likely that total bilateral aid budgets can be affected through this process or will it serve essentially only to redirect aid resources and/or provide more background information to aid agencies?

1/ The SAF was established on the basis of initial calculations of access for eligible members equivalent to 47 percent of quota, including disbursements of 20 percent of quota in support of the first annual arrangement and of 13.5 percent of quota in connection with each of the second and third annual arrangements.

2/ This calculation takes into account an increase in the number of SAF-eligible members to include Kiribati and Tonga, which have recently become IDA-eligible, as proposed in "Structural Adjustment Facility - Eligibility of Kiribati and Tonga" (EBS/87/44, 2/25/87).

3/ A further review and recalculation would be made in the first part of 1988, i.e., before the initiation of third-year disbursements, on the basis of information available at that time.

3. Conditionality and program design

Is the nature and form of conditionality seen in the cases brought to the Board thus far appropriate to the aims of the SAF? In this context, are the standards for designing programs for the use of SAF resources that are delineated by the staff in the sections which follow consistent with the vision of Directors for the aims of these operations? The staff believes that SAF resources should be in support of strong growth-oriented adjustment programs. In a majority of SAF-eligible countries, SAF and SBAs could complement each other. However, a limited number of SAF-eligible countries face fragile balance of payments situations and unfavorable debt service profiles which necessitate limiting foreign borrowing, including from the Fund, to relatively long-term concessional resources. Some of these countries also have overdue obligations to the Fund. The SAF provides a potentially valuable instrument for the Fund to assist members in these circumstances, following elimination of any arrears to the Fund that may exist. Viable programs for some of these countries may require Paris Club rescheduling and increased concessional assistance from the World Bank and bilateral agencies. Creditor governments and aid agencies have indicated that if the SAF is to provide the assurance of satisfactory macroeconomic policies and monitoring needed to support their operations in support of policy reform, SAF programs would have to be strong.

4. Speed of use of SAF resources

The Summing Up of the March 1986 Board discussion stated that "... all Directors stressed that the procedures should be applied flexibly in order to avoid undue delays." There was strong emphasis on the need to make the resources available quickly and avoid excessive burdens on the Board, on the staff, and on the authorities. In the first year of operations, there have been only 10 SAF loans approved and only SDR 139 million have been disbursed. This speed of resource use is perhaps considerably slower than at least some Directors envisaged.

The most important factor affecting the use has been the requirement to formulate comprehensive structural reform programs. In a number of cases to be addressed in the coming months, it would take some time before structural and institutional problems are fully analyzed. Thus, a question arises as to whether PFPs should be expected in all cases to be fully articulated statements of structural adjustment from the outset. One approach would be to accept that SAF programs, by their nature, take time and to accept the delays inherent in the process. An alternative would be a staged approach, whereby the initial PFP would contain detailed analysis only in some areas, with the diagnosis/policies in other areas specified more fully only in the revised PFPs for the second and third years. The staff believes that, in principle, PFPs should aim at comprehensive analysis; however, in a limited number of cases where this is not practicable, but where there is assurance that macroeconomic policies could address the immediate problems reasonably efficiently and adequately and thus improve the environment

for structural reforms, it may be useful to experiment with the flexibility that would be allowed by the staged approach.

5. Other issues

More specific operational questions are addressed to Directors in the text (and underlined for easy reference). Such questions include: (a) the application of the protracted balance of payments criterion as a test of qualification for use of SAF resources (page 15); (b) procedures for separate or simultaneous presentation of PFPs and SAF programs to the Board (page 19); (c) rolling three-year framework for PFPs (page 23); (d) the number and nature of benchmarks in SAF arrangements (pages 28-29); and (e) the coincidence of program and arrangement periods (page 36).

While specific issues are raised for discussion in each of the following sections of this paper, what is required to advance the operations of the SAF is the emergence, to the extent possible, of a stronger consensus for the use of these resources and, in particular, a strategy for the PFP process, especially as regards the purposes of that process beyond the Fund.

The remainder of the paper is organized as follows. Section II provides information on the status of use of SAF resources and the factors affecting such use. It describes the extent of staff contacts on SAF matters, including the number of cases where SAF arrangements are in place and those under negotiation. Section III considers the PFP/SAF process mainly in terms of its procedural aspects, including the additional staff resources devoted to the operations of the facility. It describes the procedures and practices regarding Fund-Bank collaboration in the preparation of PFPs, including joint negotiations with member countries. The separation of the PFP and SAF negotiations is also discussed. Section IV considers the evolution of the content of PFPs and considers issues related to the future orientation of PFPs and their relationship with three-year SAF programs. Section V discusses the design and content of SAF programs, their relationships with other Fund programs, and their monitoring aspects. Section VI deals with the SAF as a vehicle for the mobilization of resources and reports on the views of major bilateral aid agencies on association of resources with the SAF.

II. Status of Use of SAF Resources

1. Extent of use

Requests for use of SAF resources have been approved by the Board for 10 members (as of February 9, 1987) representing about 17 percent of

the quotas of SAF-eligible countries, excluding China and India 1/ (Table 1 and Appendix Table I). The amounts committed under the SAF (on the basis of initial calculations of access of 47 percent of quota over a three-year period) for these members total SDR 327.4 million. Policy framework papers have been issued to the Board for an additional two members whose combined quota represents about 7 percent of the quotas of all SAF-eligible countries.

Table 1. Status of SAF Arrangements

(As of February 9, 1987)

	Number of Cases		Quotas	SAF Amounts
	Total	Of which: SAF only	Shares in percent 1/	(In millions of SDRs) 2/
Approved by Board	10	(2)	16.6	327.4
Issued to Board (PFP only)	2	(--)	7.2	141.3
Negotiations commenced in 1986	12	(3)	37.9	746.5
Negotiations expected in QI 1987	9	(6)	14.4	283.9
Preliminary discussions undertaken, or expected in QI 1987	18	(...)	13.8	270.7
Total	51		89.9	1,769.8

Source: Appendix Table I.

1/ As percent of quotas of total SAF-eligible countries (excluding China and India).

2/ On the basis of initial calculations of access of 47 percent of quota over the three-year period.

In addition, negotiations on the use of SAF resources commenced with 12 other members in 1986, and are expected to begin in the first quarter of 1987 with another 9 members; these cases together account for 52 percent of the quotas of SAF-eligible countries. However, progress on negotiations with these 21 members (who have cumulative access to SAF resources of over SDR 1 billion on the basis of the original decision) has varied, and the discussions are expected to be completed quickly in only some of these cases.

Preliminary discussions have been undertaken or are expected to begin shortly with another 18 members representing 14 percent of quotas of SAF-eligible countries. The nature of such preliminary discussions has ranged from acquainting the authorities with the modalities of the

1/ Henceforth in this paper the term "SAF-eligible" will be used to refer to IDA-eligible countries other than India and China.

SAF and ascertaining their interest in a possible SAF arrangement, to exploratory discussions on the type of policies which could ultimately form the basis of a SAF program.

Overall, in the first year of operation of the facility, the staff will have had contacts on SAF matters with virtually all eligible members (with 51 members representing 90 percent of the quotas of SAF-eligible members). Moreover, negotiations have commenced with almost all members that have a good possibility of using SAF resources in the near future. The remainder are mainly those members who have expressed no interest in further considerations at this time for use of SAF resources; those with overdue financial obligations to the Fund and/or those that are following policies that cannot be supported by the Fund; and those with no apparent protracted balance of payments difficulties or balance of payments need at this time.

2. Association with other Fund resources

In most of the cases where substantive negotiations on SAF programs have commenced, including those which have been finalized, there has generally been a close association with the use of other Fund resources. Of the ten SAF arrangements approved by the Board thus far, two (Dominica and Haiti) represented cases where the use of Fund resources was confined to the SAF; these will henceforth be referred to as "SAF-only" cases. Of the remainder, in three cases (Bangladesh, Bolivia and Mauritania) SBAs had already been approved by the Board prior to the commencement of SAF negotiations; in four cases (Burundi, The Gambia, Senegal, Sierra Leone) the stand-by and SAF arrangements were presented to the Board for consideration simultaneously; and in one case (Niger) a stand-by arrangement was in place at the time of the SAF negotiation and a new SBA was discussed concomitantly. Of the 14 other cases where negotiations commenced during 1986, three are currently expected to be "SAF-only" cases.

On the other hand, the negotiations which are expected to commence in the first quarter of 1987 are predominantly "SAF-only" cases; this is also the present expectation for the cases where preliminary discussions (as opposed to negotiations) have been undertaken or are expected to commence soon.

Overall, the pattern which has emerged thus far indicates that SAF negotiations have been facilitated where the authorities were already committed to an adjustment program which was being supported by an SBA or for which they were seeking an SBA. Since much of the prerequisite analyses had been initiated in the context of SBAs and Bank structural adjustment lending in these countries, the early SAF cases were in a sense easier to process, and it may be expected that future cases would require more time.

3. Factors affecting use

Based on the experience thus far, certain broad features are emerging on the factors which have affected the speed with which SAF resources are utilized.

a. Strength of immediate commitment to reform

The SAF requires governments to make commitments over a three-year period on macroeconomic and structural issues which are often highly sensitive. It is not surprising that, under these circumstances, it may require some time to develop the internal political consensus to come to a decision to make that initial commitment. Where progress in forming such a consensus was already advanced (in the context, for example, of ongoing or recently completed discussions for an SBA and/or a Bank SAL), it has been found easier both for the authorities and for the staff to come to an understanding on the SAF program, or to integrate the SAF dimension into the stand-by negotiations. In some other cases, the authorities were in principle willing to make a commitment to a wide-ranging structural reform but could not do so immediately either due to political factors or simply to the time required to gain domestic support for the program.

b. Preparation of required analyses

The extent of prior preparation by the authorities, as well as by the Bank and the Fund on structural issues has also affected the speed with which programs can be formulated. Where the requisite studies had already been undertaken or were nearing completion, and where discussions on structural policies were well advanced (for example, in the context of an SBA or a Bank SAL), the reaching of understandings on the SAF program was facilitated. In most of the SAF cases already approved by the Board, the Bank's studies and analyses on structural issues were completed or sufficiently advanced (for example, Burundi, Haiti, Mauritania, Niger, and Senegal) that it was possible to move quickly. In some cases where discussions have begun, more time is needed to study structural issues (for example, Benin and Lesotho).

c. Attractiveness of the facility

In some cases members have indicated that SAF conditionality was too high in relation to the amount of resources extended under the SAF. The issue of the additionality of associated Bank or other multilateral and bilateral resources, and concerns about cross-conditionality were cited by some members as contributing to their lack of enthusiasm for the SAF. In some cases, the authorities found the

procedural requirements of the SAF to be too onerous. There were other cases where the member did not wish to be among the first precedent-setting cases, but rather wished to wait to see how the SAF was developing before making commitments.

d. Overdue obligations to the Fund and inadequate financing availability

The Fund's policies on negotiations with members with overdue obligations to the Fund are being applied to requests for the use of SAF resources. 1/ In some cases, the existence of large arrears to the Fund by the member, together with its pursuit of policies that do not hold the prospect for settling such arrears in the near future, have been an impediment to the initiation of discussions on the SAF (for example, Sudan and Liberia). In some other cases, discussions were held and the elements which could form the basis of a SAF program were agreed between the Fund staff and the authorities, but the necessary financing could not be mobilized to enable the member to settle its overdue obligations to the Fund which, in turn, prevented the issuance of the SAF request to the Board (for example, Zambia).

While arrangements for the use of SAF resources will not be negotiated nor, if already negotiated, considered by the Board for a member with overdue obligations to the Fund, negotiation and Board discussion of the PFP alone may be envisaged. For example, the PFP for Zambia was issued for the information of the Board at a time when the member had outstanding overdue obligations to the Fund and even though it was envisaged that modification of the PFP might be required. A separation of the PFP from the SAF arrangement was deemed appropriate for purposes of this policy because the PFP does not constitute the basis for the member's request for use of Fund resources. In certain instances, PFPs could be helpful in mobilizing resources to enable the member to settle its overdue obligations to the Fund which, in turn, would help pave the way for processing requests for use of Fund resources. Board discussions of the PFP could provide guidance as to what would ultimately be acceptable in a SAF-supported program.

e. Qualification: protracted balance of payments problems

In the paper on use of resources of the Special Disbursement Account (EBS/85/283, 12/17/85), the staff described the criteria for determining the existence of protracted balance of payments problems,

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1/ See discussion of this issue in "Use of Resources of the Special Disbursement Account - Further Considerations" (EBS/86/53, 3/4/86).

which is a requirement for members to qualify for SAF assistance. 1/ During the Board discussions in February 1986 on the use of resources of the Special Disbursement Account (Buff 86/30, 2/19/86), Directors considered the staff analysis as useful, but stressed that the criteria for assessing the existence of protracted balance of payments difficulties should not be applied in a mechanical way. Rather, flexibility would be needed in assessing, on a case-by-case basis, the position of individual countries making requests. These views were reiterated during the March 1986 discussion establishing the SAF, when Directors again stressed that the assessment of a protracted balance of payments problem was to be made on a case-by-case basis, and was to avoid the mechanical application of statistical indicators.

The staff has exercised flexibility in the determination of the existence of protracted balance of payments problems. In a few cases, early discussions with the authorities on the potential use of SAF resources revealed that the existence of protracted payments problems was not sufficiently apparent at the time, and the discussions did not proceed further. In most other cases, however, one or more indicators

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1/ As indicated in that paper, the determination of the existence of protracted balance of payments problems would involve examination of past, current, and prospective balance of payments developments. Such an assessment would need to take into account various aspects of external performance, since a determination of the severity of an external imbalance cannot be based on any single objective indicator. Evidence of a protracted balance of payments problem would be sought in indicators such as the behavior of the current account deficit, a stagnant or declining volume of exports, a depressed volume of imports, or a deterioration in the terms of trade; in external finance indicators, such as deteriorating access to capital markets or rising costs of debt service; declining reserves; and associated stagnant or declining economic activity. Assessment of the behavior of these indicators would take account of both the magnitude and the duration of any unfavorable development. Protracted balance of payments problems, moreover, would often be reflected in difficulties in undertaking an orderly process of adjustment, which could be evidenced by tightened exchange restrictions, payments arrears, or prolonged use of Fund resources. Analysis of these indicators would be both retrospective and prospective, and would take account of other factors that would influence a country's path toward external adjustment, as measured, for example, by projected medium-term financing gaps. The analysis would need to allow for the fact that external prospects and the ability to adapt to them vary considerably from country to country. Moreover, the fact that a country's medium-term prospects are relatively favorable because of the determined effort to deal with past protracted problems would not necessarily preclude access to SAF resources if a continued structural adjustment effort was required that would extend over a number of years, during which economic growth would continue to be constrained to less than its potential.

on current and prospective developments in the balance of payments, external debt, and/or their components pointed to the existence of protracted difficulties. On the occasion of the discussions of the request for SAF resources and of the Article IV consultation of one member (Dominica), an Executive Director questioned whether sufficient evidence had been presented by the staff to provide a convincing argument that the member was indeed experiencing protracted balance of payments problems.

For those SAF-eligible countries where the existence of protracted balance of payments difficulties was less obvious, the staff would intend in the future to analyze in greater detail the features of the economy which indicate the protracted nature of the balance of payments difficulties. However, further guidance is needed on the degree to which Directors may want to see a more restrictive application of this criterion.

III. The PFP/SAF Process--Procedural Considerations and Staff Resource Costs

The PFP/SAF process involves, as a first step, the preparation by the authorities of a policy framework paper in collaboration with the staffs of the Fund and the Bank. The PFP is normally to be reviewed by the Boards of both institutions and views of the Bank Board 1/ are conveyed to Directors of the Fund by transmitting a summing up of the Bank Board discussion of the PFP. Within the framework enunciated in the PFP, the authorities would formulate separately with the Bank and the Fund more detailed programs related to the sphere of each institution's responsibility and supported separately by use of resources of each institution. It was also expected that the policy framework paper would provide an opportunity to other multilateral and bilateral aid agencies to harmonize their lending programs with the priorities and financial requirements of the member as described therein. It also was hoped that the PFP/SAF process would help generate additional resources from the World Bank and other multilateral and bilateral donors. This section focuses on the procedural aspects related to the PFP/SAF process.

1. Preparation of policy framework papers

Policy framework papers are to be documents of the authorities, prepared with assistance of the Fund and Bank staffs. In all cases thus far, the two staffs have prepared a draft at headquarters and have had it cleared by both managements before the papers were discussed with the authorities. It was recognized by the staff that this procedure might inhibit or make more difficult the process of incorporating the

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1/ The Executive Directors of the Bank and IDA discuss PFPs in a Committee of the Whole.

authorities' imprint into the paper in that the authorities would be presented with a reasonably refined draft. At the same time, however, this procedure was seen as a means to minimize the chances of significant differences of views emerging between the staffs of the two institutions in the field.

The summing up of the March 1986 discussion envisaged that negotiations of PFPs would involve the collaboration of the Bank and Fund staff who will work closely on these matters with the authorities, including through joint missions. In practice, such joint missions have taken place for the negotiation of all PFPs, and in most cases even for preliminary discussions of the medium-term framework. Appendix Table II provides information on the participation of Bank staff in selected missions to negotiate PFPs (including cases brought to the Board to date). In a significant number of cases, parallel missions took place, but staff from each institution discussed and negotiated the PFP jointly with the authorities.

While discussions with the authorities were held jointly with both staffs, a formal designation of a joint mission chief has not been made because it has not been viewed as necessarily helpful in resolving differences that might emerge between the two staffs in the field. Since in all cases to date substantial preparation of draft PFPs has been done at headquarters, including clearance by both managements before missions' departures, the process has assured ample opportunity for both institutions, at the highest levels, to have their views fully reflected in the draft documents. There have been no instances where one institution felt that there was not sufficient opportunity for its views to be heard through this process. Therefore, it is the view of the staff that the established procedures for Fund-Bank collaboration in the PFP/SAF process addresses the call for jointness by the Board.

In the determination of the division of responsibilities between the Fund and the Bank, the summing up of March 1986 stressed that "the competence, mandate, and expertise of each of the two institutions must be respected. The Fund would pay particular attention to what it was most well equipped to look at: macroeconomic developments and policies, fiscal policies, monetary policies, exchange rates, exchange systems, tax reforms, and price realignments, but in conjunction with the World Bank, which has particular expertise and competence in development and sectoral policies, investment priorities, microeconomic reforms, and the like." In practice, the division of labor has been less clearcut. Collaboration in the development of policy framework papers has taken place on the principle that full agreement must be secured on all major fronts, rather than relying on one institution's judgment on matters in the areas of its competence. Often, differences of views emerged at the operational staff level on various matters, including the level of imports, the export growth targets, the size of the fiscal deficit, the amount of external financing, the balance of payments deficit, and the coverage of long-term developmental issues. It is only natural and healthy to have different views, and the differences were resolved

either by the operational staff or at higher levels. However, the process of resolving the differences absorbed considerable staff resources. Drafting of PFPs has also been rather time-consuming as the staffs felt it necessary to ensure that respective institutional perspectives were properly reflected in the language in the paper.

In view of clear signals from the Board to get the facility operating and available to members expeditiously, and also to minimize costs and travel, and in light of the administrative burden on member governments, the Fund staff has attempted to fit negotiations on PFPs/SAFs into the Fund work schedule; for example, to coincide with an Article IV mission, a stand-by review, or a stand-by negotiating mission. Given the close association of SBA and SAF resources that has occurred thus far, such a combination was in any case relevant for negotiating SBAs and SAFs. The Bank staff has noted that the PFP cycle has usually been initiated by the Fund on a schedule that does not always fit with the Bank work cycle. In such cases, however, adjustments have been made within the two institutions.

In some countries, particularly smaller African, Pacific islands, and Caribbean countries, the Bank has had limited involvement in recent years and, therefore, existing information at headquarters may be insufficient for the Bank to make a substantive immediate contribution to PFPs. In two cases the Bank staff have informed the Fund staff that they would not be in a position to make a contribution toward a possible SAF operation because of very difficult Bank/country relationships or for the above reason. Other cases may also arise where it is not possible to have substantive Bank staff input in the preparation of PFPs. The Fund staff believes that in such cases, if Fund involvement with the member through the SAF is deemed useful and appropriate, it should not be an absolute requirement that the Bank staff be involved in the preparation of PFPs. It may be possible, at least in the interval until the Bank indicates its desire to be fully involved, to seek some of the requisite inputs for the structural aspects of adjustment from one of the regional development banks or from major bilateral donors, without, of course, formal involvement of the latter.

In sum, although the procedural requirements of joint negotiations have sometimes caused frustrations on both sides, and perhaps some inevitable delays, on the whole such requirements have contributed to the improved Fund/Bank collaboration. As experience has been gained and as both staffs have adapted procedures and practices to reflect the concerns of the other, considerable progress has been made toward more efficient joint Fund/Bank preparation of PFPs.

As regards the authorities' input into PFPs, in most cases PFPs have been based, at least in part, on existing official documents such as development plans or other government strategy papers, and to this extent reflect the imprint of the authorities. In some cases, however, the authorities' input has been confined to comments on drafts produced by the two staffs, while in other cases there has been little evidence

that the authorities have regarded the PFP with enthusiasm. The authorities' input into PFPs appears to have been limited in part because of the practice of the two staffs of preparing a fairly refined draft at headquarters prior to negotiations. One means to generate more participation by the authorities in the formulation of PFPs would be for the two staffs to hold discussions at an early stage with the authorities to exchange views on the major issues and priorities and to initiate drafting of the PFP by the authorities in the field. However, this process may well require subsequent missions to finalize the negotiation and drafting of PFPs. Such a process would undoubtedly slow the processing of the SAF requests. Moreover it would call for substantial additional staff resources as the number of missions would tend to rise, a prospect that would be difficult to accommodate under current resource constraints.

2. Separation of PFP and SAF negotiations

Negotiations for the use of SAF resources could be conducted through a two-step process--under which the PFP is negotiated with the authorities and discussed by the Board prior to negotiation of the SAF arrangement and submission to the Board of the member's request for use of SAF resources--or through a one-step process which combines the presentation of the PFP and the SAF request for simultaneous consideration by the Board. The Chairman's summing up of March 1986 indicated that it was "the expectation of the Fund" that framework papers would be reviewed by the two Boards "at an early stage before commitments are made" on the use of SAF resources. Nevertheless, the summing up provided leeway for "making the procedures as practical and as flexible as possible." 1/

In practice the one-step process has been heavily used thus far. For the PFPs/SAFs already approved or issued to the Board, the two-step process has been adopted in only one case (Central African Republic).

1/ The summing up indicated that for countries where "discussions on the formulation of medium-term structural policies with a member are well advanced . . . it may well be possible to present a medium-term framework paper and the program for the first year of an arrangement to the Board at the same time." The summing up envisaged, for instance, that in the case of a country which had a series of Fund-supported programs, so that the Fund was well acquainted with its medium-term structural problems, it may be possible to move quickly forward with a framework paper and a first-year program. Where formulation of medium-term structural policies was less advanced, it was envisaged that "a separate set of talks" on the framework would probably have to be conducted, and "the Fund could later on take up the specific program." The summing up also referred to the need to avoid unnecessary delays and to reduce costs and travel. The procedures were to be introduced at the outset "in an experimental fashion with considerable pragmatism and with a view to avoiding rigidities, complications, and undue delays."

On present indications there are still very few cases where the two-step process is being planned. This heavy reliance on simultaneous presentation of PFPs and SAF requests is explained by several factors. (1) Where an SBA has already been approved or an Article IV consultation has recently taken place, the Board has usually had the opportunity to discuss the country's policies and its medium-term prospects in some depth. (2) Where SBA and SAF requests are being negotiated simultaneously, for all practical purposes, adoption of the two-step process would have delayed the SBA (if the SBA was to follow the PFP) or caused complications in programming and negotiation (if the SBA preceded the PFP). (3) By combining negotiations, the staff wished to alleviate the work pressure which has markedly intensified due to the SAF, and/or hoped to economize on costs and travel given Board and management injunctions on this matter. Combining negotiations also reduces the burden on member countries. (4) Finally, in certain cases, the authorities have raised objections to finalizing negotiations on the (more general) PFP before they understood completely what specific conditionality would be associated with the first-year arrangement under the SAF.

Directors' guidance would be appreciated on the practices followed thus far on the negotiation and Board discussion of the PFP and the SAF request. 1/

3. Staff resource costs

The SAF has entailed a heavier staff workload than originally envisaged. EBS/85/283, Supplement 1, assumed the minimum additional workload for fiscal year 1987 to be on the order of 20 professional staff years annually and 2 support staff years annually, with an additional 15 missions or so. The paper cautioned that these estimates were subject to a large margin of error.

Summary statistics of staff work related to the SAF during the period March-December 1986 are shown in Appendix Tables III and IV. These data show that earlier projections underestimated the staff resources involved in SAF-related matters. During the last nine months of 1986, such resources amounted to the equivalent of 24.4 professional staff years and 5.7 support staff years. Work on missions accounted for about 25 percent of the staff time. There were 50 missions to 36 countries involving SAF-related activities, including to 23 countries in the African Department, 5 in the Asian Department, and 4 in both the Middle Eastern and Western Hemisphere Departments. There were 10 missions devoted exclusively to SAF activities while for the other missions the staff spent an average of 30 percent of the time on SAF-related matters.

1/ It would be understood in any case that negotiations would be confined to the PFP as distinct from the SAF arrangement in the case of members with overdue obligations to the Fund.

The staff has attempted to economize costs by combining SAF and other missions where feasible. Furthermore, for most of the SAF arrangements approved to date, much of the work had already been done in the context of existing SBAs or ongoing discussions on proposed SBAs. Even so, staff resources were overstretched, and in the coming year it would be necessary to augment manpower for the SAF. As mentioned earlier, processing of PFPs and SAF requests (and of SAFs and SBAs) has often been combined to economize on manpower and travel costs; additional resources will be required especially if these procedures are separated.

IV. Policy Framework Papers

This section reviews the evolution of policy framework papers with respect to their content and relationship with three-year SAF programs, and suggests possible future directions for PFPs including adoption of rolling three-year frameworks.

1. Evolution of PFPs

The PFPs reviewed by the Board thus far have generally described the major macroeconomic and structural problems confronting the economy; presented the member's overall objectives and policy priorities for the three-year program, and the general thrust of the intended reforms; and discussed the broad magnitudes of the financing requirements and availabilities. Within this broad commonality of features, PFPs have evolved with varying emphasis on diagnoses of structural elements versus policy prescription. However, the differences thus far have been a matter of degree, rather than representing fundamental differences in approach. The staff has been searching for the appropriate balance between diagnosis and policy commitments, and between generality and specificity, and has been considering the relative merits of PFPs as comprehensive catalogues of the desirable structural reforms or as more selective documents focusing on consideration of a few of the most important structural issues.

As the concept and character of PFPs have evolved over the past year, there has been an increasing focus on the policy commitments of the authorities. This reflects to a large extent the expressed desire of Directors in both institutions, and has typically taken the form of inclusion of a policy matrix. Also, as PFPs and SAF programs have been negotiated simultaneously in virtually all cases to date, specific policy undertakings to which the authorities were prepared to commit themselves could have been presented either in the PFP or in the SAF program. To minimize duplication and economize documentation, the staff has tended to discuss such undertakings in the PFP and to refer to it in the letter of intent requesting a SAF loan (also see below). Thus, the desire for specificity in SAF-supported programs has tended to become reflected in the formulation of PFPs oriented to more specifically defined policies than perhaps originally intended. This policy paper

approach to the PFP has served well thus far since the paper has been used essentially only for the SAF operations.

In considering the future directions of PFPs, including in regard to their usefulness to the authorities of SAF-eligible countries and to aid agencies and, more generally, as a mechanism for aid coordination, there may be merit in adapting PFPs to focus to a greater extent on identification of macroeconomic and structural problems, the strategy to deal with these problems, and the broad nature and extent of macroeconomic and structural reform to be sought over the next three years; specific policy commitments that are to be undertaken would be discussed in the context of SAF and Bank programs. The PFPs would more fully analyze major structural factors inhibiting growth and causing balance of payments weaknesses, as well as major sectoral problems and prospects for growth in these sectors, and discuss the priority among areas that need to be addressed; the papers would provide an overview of structural reform to be sought over the next three years. The papers would, of course, continue to provide a macroeconomic framework over the three-year period and specify financing available consistent with this framework. Such an adaptation of PFPs would facilitate wider circulation of PFPs while maintaining confidentiality of specific commitments of the authorities under the SAF arrangement and/or Bank lending. The PFPs could then serve as "steering briefs" for bilateral agencies. The Bank staff support this concept of PFPs.

It appears clear that PFPs would need to be adapted as described above if authorities of SAF-eligible members are to use the papers more actively outside the Fund and the Bank. It is uncertain, however, whether, even with the desired adaptation, the PFP process would bring about additional aid resources for the countries receiving SAF loans. Since prospects are uncertain rather than wholly negative, however, it would seem useful at this time to offer the opportunity for wider use of PFPs. Therefore, the staff believes that the adaptation suggested above is appropriate in the period ahead and would welcome Directors' guidance on this point.

As a separate issue regarding the content of PFPs, it may be mentioned that Bank management and some Bank Directors have suggested improvements in the coverage of the sources and prospects for growth in the economy, and have also sought more discussion of supply-side factors. Bank staff and management have indicated that in order to provide a comprehensive framework for sustained development, PFPs should focus much more on longer-term development strategy issues; thus, they should outline the major constraints and the broad thrust of the policy and investment requirements for viable long-term growth and include, where appropriate, developmental issues such as population, health, and education.

2. Relationship between PFPs and three-year SAF programs

In requesting assistance under the SAF, the authorities are to present to the Board a three-year macroeconomic and structural program in support of the three-year SAF arrangement and an annual program in connection with each request for an annual disbursement. It was envisaged that SAF programs (both the three-year and annual programs) would delineate more specifically the issues and policies of particular concern to the Fund that are discussed only in broader terms in the PFP. It was deemed more appropriate for the authorities to make detailed commitments under the three-year arrangement described in a letter of intent rather than in the PFP.

In practice, all the SAF requests approved thus far, and most of those currently under preparation, have featured three-year SAF programs which are synonymous with the PFPs, i.e., they do not contain more detail, description, or specificity than found in the PFP. The envisaged additional detail has been presented only for the annual program. In some cases where the authorities have preferred not to make specific commitments in the PFP on the grounds that such papers had the potential of wide circulation, they have not used the more confidential mechanism of the letter of intent for a more detailed exposition of the three-year program. Consequently, the typical SAF letter of intent has contained a relatively brief description of the three-year program, making reference to the policy framework paper for more detail. This practice has led to the incorporation of a fairly wide range of structural policies as contained in the PFPs into the SAF programs, and has been reflected in some overlap of measures covered by three-year SAF arrangements with those of Bank-supported programs. This process has also raised questions as to the precise nature of the commitment on the part of the authorities under the SAF arrangement to the many policy initiatives described in the PFP.

The absence of a distinctive character between the PFP and the three-year program under a SAF arrangement is due, in part, to staff attempts to respond to calls from Bank and Fund Directors for greater specificity in the PFP itself. The heavy reliance thus far on the one-step process (whereby the PFP and SAF requests are negotiated together) may also have tended to discourage differentiation between PFPs and three-year SAF programs. It is suggested for Directors' consideration that, in the future, the letter of intent should include more detailed discussion of specific policy commitments for the three year period in a limited number of key areas under the Fund's competence. This would help differentiate the two products more clearly without increasing staff resources required to prepare the documentation, and would help define more clearly the member's commitments to the Fund under the SAF arrangement.

3. Rolling three-year framework

The summing up of March 1986 envisaged that the policy framework paper would have to be updated annually as the program was implemented. Since experience with SAF programs has spanned a period of less than a year, issues related to updating have not yet surfaced. In this connection, however, some Executive Directors have expressed a preference for instituting rolling three-year programs which would be updated annually. This concept would imply that each year a PFP would be produced which not only updates policies for the remaining years of the original three-year period but also incorporates an additional year in the macroframework and the policy prescriptions.

The main advantage of a rolling framework is that it provides for a continuity of policies which is useful for both the authorities and international institutions and agencies supporting the member's adjustment efforts. However, the rolling PFP adds considerably to the burden on both the authorities and the staff in terms of the extra work and time required to negotiate the framework for an additional year. At least for the Fund, the additional year would have less operational significance than the period covered under the three-year SAF arrangement. Nevertheless, the staff views the rolling PFP as an important means to keep attention focused on the longer term requirements of policy, and as appropriate in light of the potential use of the PFP beyond the Fund. Such an approach would be meaningful if the basic structure of the SAF and the PFP were to continue beyond the initial three-year period. It is suggested, therefore, that all revisions to policy framework papers provide a continuous three-year horizon.

4. Cross-conditionality

The summing up of the March 1986 Board discussion stated that "cooperation [between the Fund and the Bank] is of the essence, but it will be conducted in a manner that will not give rise to cross-conditionality." To avoid cross-conditionality, specific lending operations of the two institutions were separated from the jointly prepared policy framework paper, and the two Executive Boards were to "review" rather than "approve" PFPs.

In reviewing SAF operations in this respect, it is useful to recall the last Board discussion on Fund-Bank collaboration. On that occasion, Directors stressed that the lending activities of each institution cannot and must not be subject to veto by the other institution. At the same time, however, shared concerns should not be equated with cross-conditionality, especially in a world where the concerns of the Fund and the Bank in member countries are often parallel. In SAF operations thus far, there have been no instances where disbursements of SAF loans were denied on the grounds that the subject country had not met loan conditions of Bank operations or that Bank management was not prepared to endorse a PFP approved by Fund management. That there are economic

linkages between SAF programs and those supported by Bank lending cannot be denied, however. In cases where macroeconomic imbalances are severe, the Bank regards an SBA or an SAF arrangement as providing assurance that macro-economic policies are consistent with the objectives of balance of payments adjustment. If macroeconomic policies are not appropriate, that is bound to have repercussions on sectoral and structural problems. Such indirect linkages are simply a reflection of the general economic inter-relationships and are inevitable as long as both institutions are engaged in policy-based lending.

It may also be noted that the policy framework paper is negotiated jointly by the Bank and the Fund and therefore, by definition, it must be approved by the managements of both institutions. Also, if one of the institutions was not prepared to engage in discussions on a PFP with a SAF-eligible country for staffing or other reasons, negotiations of SAF programs might also not take place. Furthermore, PFPs have typically incorporated policy conditions of Bank adjustment lending and the requirement of a three-year program for the three-year SAF arrangement was met by referring to the PFP in the letter of intent for the SAF loan. Thus, there were a number of conditions common in both SAF programs and Bank-supported programs. In some of the programs, some of the benchmarks, particularly where they were defined in broad terms, incorporated undertakings under certain Bank loans.

In the staff's view, overlapping conditions should be avoided to the extent possible. To this end, it would be desirable to separate SAF programs from PFPs and incorporate in the letter of intent the policy measures related to a request for SAF resources.

V. Issues in the Design of SAF Arrangements

In the course of discussions of individual SAF programs, Directors have sought clarification regarding the design and content of SAF programs, and have raised questions on the relative conditionality and monitoring aspects of SAF and upper credit tranche arrangements. Related questions have also been raised outside the Fund, viz., by the Bank management, bilateral aid agencies, and the Paris Club, on whether SAF programs by themselves were sufficient to merit the association of other financial resources or to form the basis of debt reschedulings. In this regard, the Bank has now accepted that a SAF arrangement can provide the assurance that the country has agreed to undertake macroeconomic policies required for balance of payments adjustment. Moreover, the Paris Club has agreed to consider, on a case-by-case basis, requests for debt rescheduling for countries that have only a SAF arrangement with the Fund. Extensive comments and queries within and outside the Fund have also been directed at the mechanism of "benchmarks," including their nature, number, and adequacy.

Selected issues relating to the design of SAF programs are discussed in this section. In the first sub-section, the features of

programs in SAF arrangements approved thus far are reviewed briefly; a more detailed examination is presented in Annex II. The next two sub-sections discuss the practices regarding benchmarks, report briefly on the use of prior actions, and explain some aspects of the relationship between various Fund facilities, including the circumstances in which resort to the SAF alone may be appropriate. The final sub-section raises issues related to problems in designing SAF programs in consonance with the authorities' policy-making cycle and the implications for the coincidence of the annual SAF program and arrangement periods.

1. Program design

SAF loans are extended in support of members' efforts to foster growth prospects and strengthen the external payments position. SAF programs approved to date have generally targeted growth in the three years ahead at a rate higher than that recorded over the immediate past; in most cases, annual real GDP growth has been targeted at 3-4 percent. The current account of the balance of payments was projected to improve in seven of the programs, while some widening of the deficit was envisaged in three. Consistent with the growth orientation of the facility, the programs projected substantial increases in domestic investment and emphasized measures to improve the efficiency of the economy. To allow for the increased investment while achieving the projected current account target, all programs stressed an improvement in public finances with an average reduction in overall fiscal deficits of about 3 percent of GDP targeted over the three-year period (from the average of the preceding three years). In addition, a strengthening in private sector savings was also typically expected (by some 1 1/2 percent of GDP). In regard to structural reform, all programs placed emphasis on improving productive efficiency and financial viability of public investment projects; most other structural areas were addressed at least in broad terms.

In reviewing SAF programs, some Directors have asked whether they were sufficiencly growth oriented. The staff would note that the determination of output in the short run, especially in the context of substantial adjustment efforts, is complex and it is unrealistic to attempt precise projections. It is also not useful to set growth targets solely on the basis of normative considerations. What needs to be assured is the direction of change in output to be brought about by certain policy actions; that is, an identification of the principal sources of growth and the strategy envisaged to tap these sources. The focus, therefore, should be on setting the correct policies, rather than on growth targets per se. It may also be noted that more growth orientation cannot and should not be equated with a larger current account deficit. A mechanical link between growth rates, on the one hand, and import/external finance requirements, on the other, should be avoided. The quantitative relationship between these factors is at best tenuous, especially in a period of substantial structural reform. Indeed, the policies that have been required from an efficiency

perspective under SAF programs are expected to change past relationships, and to allow for narrowing current account deficits in relation to GDP at the same time as GDP expands or growth accelerates.

As regards the setting of external objectives in the three-year program period, no simple pattern for the current account deficit can be applied to all SAF programs. The desired path for the current account reflects a number of factors including the position at the beginning of the program, the availability over the medium term of external financing appropriate to the country concerned, and the extent of liberalization of the trade system. In all cases, however, the programs are designed to achieve substantial progress toward external viability during the three-year period. The majority of SAF-eligible countries have not experienced acute debt servicing difficulties, and programs envisage that their external debt will continue to be fully serviced on schedule from the outset of the three-year period. It is recognized, however, that in certain cases the need for exceptional financing, such as Paris Club rescheduling, may continue even beyond the program period. In fact, in four of the ten programs approved to date, financing gaps and the need for exceptional assistance were expected to persist after the SAF arrangement. However, in all cases but two, 1/ the programs targeted a marked reduction in the debt servicing burden and, where exceptional financing was judged necessary, it was to be eliminated during the program period or the extent of reliance on such financing was to be substantially reduced over time.

In the structural areas, virtually all programs have featured public sector reform, including tax and public enterprise reform, improvement of agricultural infrastructure, and pricing policies. Several programs have also contained active exchange rate policy and import liberalization. Generally, programs have tended to be all encompassing in regard to structural issues. At the same time, a number of programs have focused on the identification of problem areas rather than on specific, immediate steps to solve these problems. Given the experience to date, there would appear to be some merit in better prioritizing the major areas demanding structural reform and delineating, within the specific Fund arrangements, the concrete measures to be taken to address major problems in a few selected areas under the Fund's competence.

Consistent with the emphasis on improving the efficiency of public investment programs, in all cases but two, a review of such programs by the World Bank had been completed before Board approval of the SAF arrangements. The nature and the outcome of the review were not described in detail in most programs, however. In the usual case,

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1/ Burundi and Dominica, where the debt service ratio would remain roughly constant over the program period.

implementation of investment programs is to be reflected in the assessment of annual arrangements and, of course, reflected in the revisions made in the PFP.

2. Monitoring

a. Benchmarks

To delineate the path of structural reform and to facilitate evaluation of members' progress under SAF arrangements, the facility provides for benchmarks to be used in specifying the authorities' objectives and policy intentions. These benchmarks are to be set out in broad terms in the three-year program and in more detailed fashion in annual programs. Benchmarks in some cases refer to the timing of specific policy actions, in other cases to quantified policy instruments. As indicated in the summing up of March 1986, these benchmarks are "to be constructed in a flexible way" and "will not be associated with disbursements." Benchmarks are meant to serve several purposes. In particular, they help the authorities develop a clear policy path for the program period and they provide an objective standard for ex-post assessment of performance in negotiating subsequent annual arrangements.

In practice, most of the SAF cases approved thus far have been associated with SBAs, and the performance criteria in the SBA have served as the financial benchmarks for the annual SAF program (Appendix Table V). In these cases, members have invariably found it convenient to derive the benchmarks from the performance criteria variables. This is hardly surprising given that one purpose of performance criteria under SBAs is to focus on a few crucial, financial indicators which permit the monitoring of progress under the program, i.e., the same function to be served by benchmarks. In the two "SAF-only" cases (Dominica and Haiti), the design of the financial benchmarks was similar to that of performance criteria which had been used in stand-by or extended arrangements with these countries in the past. The similarity in monitoring devices on financial indicators is a reflection of the nature of the economic imbalances which members are facing in these cases that would need to be addressed in any adjustment program.

While financial benchmarks have in all cases been specified intra-yearly (quarterly in nine cases, half yearly in one case), they are obviously not equivalent to performance criteria as they do not serve as triggers for disbursements. At the time of assessment of the implementation of the first-year program and the formulation of the second-year program, the path of adjustment relative to that defined by the benchmarks is to be discussed with the authorities; if there were significant deviations from the path defined by the benchmarks, this is likely to suggest the need for corrective measures--perhaps even in the form of prior actions--to put the program back on-track and to make the second year program credible. A mechanical assessment of progress

against the benchmarks is not intended; rather, the assessment is to take account of changes in conditions that have occured in the interim.

While specification of the financial benchmarks has been influenced by the SBA tradition, the construction of structural policy benchmarks has required more innovation. As shown in Appendix Table V, the type of structural policy benchmarks under the annual programs has varied widely across countries. 1/ The area where benchmarks were most frequently featured related to public enterprise reform (in eight out of ten programs), followed by tax reform, agricultural policies, and the public investment program (each featured in five programs); trade liberalization/tariff reform, civil service reform, and financial sector reform were other areas where benchmarks were formulated (each featured in three programs). The nature of formulation of structural benchmarks and the degree of specification have varied markedly across programs as well as between different areas in the same program. Some benchmarks were formulated in terms of preparation of studies or plans; for example, in the program for The Gambia, a benchmark was formulated on the preparation by a specified date of a divestiture and rationalization plan for public enterprises, and in the program for Haiti benchmarks called for completion of the study on effective protection by a specified date. Other benchmarks were formulated in terms of implementation of specific policy measures; for example, the program for Burundi identified precisely the percentage changes in tariffs in the various categories of imported goods to be implemented in the context of a tariff reform. Within each area of concern (e.g., public enterprises) the likely most significant measure was chosen as an indicator of progress (e.g., the rehabilitation of one big state-owned firm, the state mining company, in Bolivia).

On the occasion of consideration of individual requests for SAF resources, Executive Directors have commented extensively on the nature and number of benchmarks. Some Executive Directors have been concerned that benchmarks were proliferating and that they may be used as de facto performance criteria. Other Directors have suggested that there was insufficient monitoring and have encouraged the use of more specifically defined benchmarks.

It is extremely difficult to determine any particular number of benchmarks that can be considered "optimal." The number of benchmarks invariably reflects the type and nature of policy measures being undertaken by the authorities. In fact, counting the number of benchmarks could itself be a rather deceptive exercise. In certain cases, the benchmarks described policy actions in an all-encompassing manner and were grouped under only a few headings. In others, they described policy actions in greater detail, separately numbering each, providing the appearance of numerous actions. For example, "progress in

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1/ In most cases benchmarks have not been specified beyond the first year.

public enterprise reform" can be specified as one benchmark although including many individual actions, or as distinct benchmarks, with reform of each enterprise formulated as a separate benchmark. Nevertheless, the staff believes that benchmarks should be limited to a few variables which are considered most important for the purpose of monitoring the program. There is also room to improve the manner in which benchmarks are presented; they should be formulated in fairly specific terms to provide a clear understanding of the expected path of program implementation. Moreover, it would be useful to provide a more explicit framework of structural reform in the three-year program by including selected benchmarks that extend beyond the annual program in a few critical areas.

b. Prior actions

The summing up of March 1986 indicated that there was "no intention of overloading . . . conditionality with prior measures, but it needs to be understood that, especially in some cases where there is much to be done and where performance has been somewhat unsatisfactory, an annual program can be credible and can work only if the country is ready to take some measures that will be consistent with the unfolding of the program." The summing up also mentioned the possibility of the need for prior actions beyond the first year. 1/

Prior actions have not been required in the case of the two "SAF-only" programs approved thus far by the Board. For the SAF-cum-SBA cases, in several instances (Burundi, The Gambia, Niger and Sierra Leone) prior actions were involved. However, where SBA and SAF programs are negotiated jointly, it is arbitrary to attribute the need for prior action to one or the other. In one case (Zambia), a SAF program was being negotiated along with the review of an existing stand-by program which had gone seriously off-track; in this case, the staff and management judged that prior actions were essential to re-establish conditions conducive to the credible implementation of any adjustment program, irrespective of the facility under which Fund resources were to be used. In another case (Bangladesh), certain measures to improve loan recovery of the banking system were required as a prior action for Board presentation of the PFP since this was judged by Fund management to be critical for the success of the SAF as well as the ongoing stand-by arrangement and by Bank management for its sector loans. In no case has the staff directly or indirectly encouraged members to enter into SBAs as a precondition for use of SAF resources.

1/ The summing up stated "The question takes on added importance beyond the first year. As there will be no performance criteria governing disbursements and no phasing within a year, it will be necessary to make sure, after the first year, to capture correctly the progress that has been made under the structural program."

In discussing the incidence of prior action, it may be borne in mind that, as a matter of course, member governments take many measures according to their own policymaking cycles and in line with their own policy objectives and priorities. As long as such measures enhance the achievement of the objectives of SAF programs, it is immaterial whether or not they were considered part of "the program." In the discussion of the SAF program for Dominica, one Director suggested that prior actions were involved because the program included several measures that had been adopted before the Board discussion. In fact, the measures listed in the staff report on Dominica included actions that had been taken even before the SAF negotiations had begun as well as others that were part of the budget for the fiscal year that started several months before the program was submitted to the Board. These measures had important effects during the program period and their inclusion in the staff report was intended to fully reflect the structural reforms already initiated by the authorities, some of which had been in progress for some time. In the case of Haiti, the authorities took certain actions beforehand which were necessary to assure an effective implementation of their policy program.

3. Relationship between the SAF and other Fund facilities

a. Conceptual differences

In view of the various questions that have been raised, especially concerning the relative conditionality and monitoring aspects of programs supported by SAF resources, on the one hand, and ordinary Fund resources, on the other, it would be useful to explain the staff's understanding of the relationships between the use of Fund resources under various Fund facilities.

Whether Fund resources are provided to a member country under a first credit tranche stand-by arrangement, an upper credit tranche arrangement, or the SAF, the Fund must be assured of timely repayments. Timely repayments require that viability be restored to the balance of payments over a timeframe commensurate with the maturity of Fund resources. This objective underlies the formulation and content of any program in support of which the Fund extends its financial assistance. The nature of the program is dictated not by the facility under which resources are provided, but by the severity of the economic conditions facing the country, the amount of new borrowing being undertaken, and the repayment period and other terms associated with the funds borrowed.

The various Fund facilities differ in the procedural requirements through which the Fund seeks the assurance described above. In the case of the first credit tranche, the entire amount under the arrangement is disbursed upon Fund Board determination that the member is making reasonable efforts to solve its problems. Thus, purchases are not phased and, therefore, no performance criteria are required. In upper credit tranche arrangements, assurance is sought by making the

availability of resources subject to the implementation of policies as envisaged. The amount available under the arrangement is usually divided into (approximately) quarterly installments, and purchases are made only upon satisfactory compliance with performance criteria, or the completion of a review.

The procedural requirements associated with SAF arrangements are different from those under either first credit tranche SBAs or upper credit tranche arrangements. The three-year SAF arrangement provides for three annual disbursements, each of which is made upon Board approval of an annual program. The SAF shares the characteristic of the first credit tranche SBA in that no intra-year phasing of disbursements is provided, and there are no performance criteria. At the same time, however, continued access to SAF resources requires evidence of successful policy implementation and appropriate adjustment to emerging circumstances. In particular, the second and third annual disbursements are to be made only after satisfactory progress has been demonstrated under the previous annual programs. Benchmarks are established to monitor implementation of the program, to provide the authorities up front with a clear indication of what is envisaged, and to provide a basis for assessing progress toward the aims of the program. It is through these arrangements that the Fund seeks the desired assurance of timely repayments of SAF loans.

While SAF and the SBA programs share common objectives, the design of the programs differ in that it would be necessary to achieve viability earlier in SBAs than under a SAF arrangement given the more concessional nature of SAF financing and the feasibility of spreading adjustment over a longer period. This last feature, in particular, permits more attention to be given to efforts to bring about fundamental structural reform within the period of the arrangement. Also, since no repayments are expected for five and one half years after the initial disbursement, SAF programs may allow in certain circumstances for reliance on exceptional financing such as debt rescheduling to continue beyond the initial three-year program period.

While the differences between the design of SAF programs and that of the EFF may be somewhat less clearcut, they are still important. SAF resources are more concessional than the resources made available under extended arrangements. Moreover, there are, of course, no performance criteria in SAF arrangements. Furthermore, the SAF explicitly envisages modifications of the annual programs through, inter alia, the updating of the PFP. The SAF could also provide somewhat greater flexibility if the program began with a full articulation of only a limited number of the most important structural areas to be addressed and the commitment to undertake the work desired in the other areas, possibly with assistance of the Bank, during the subsequent years under the program.

b. Use of various facilities

In the majority of SAF-eligible countries the SAF would be a complement to, and not a substitute for, SBAs. In fact, an SAF and an SBA were extended together in eight of the ten cases brought to the Board to date. In some of these cases, SAF resources were critical in closing the financing gaps; in others, these resources provided the wherewithal to undertake additional measures. 1/ For example, in some cases additional SAF resources made it possible for the authorities to undertake further liberalization of import restrictions or to move more rapidly to exchange rate unification than may have been possible in the absence of greater balance of payments support. Thus, the SAF could be viewed as enhancing the SBA program in some cases, particularly where the country faces structural issues requiring a firm commitment to policy reform and financial support over a longer period of time.

Important questions regarding the use of SAF resources arise in cases where it is difficult to formulate PFPs relatively quickly that address all major structural issues. A number of members have had this difficulty. In some cases, comprehensive studies are needed to diagnose and assess the extent of the problems prior to determination of the nature and specific characteristics of appropriate policy reform measures. This may characterize certain cases in which the Bank has not been deeply involved with the member for a number of years. Thus, the diagnoses of a country's structural problems and the subsequent formulation of structural adjustment programs to address these problems take time. This suggests that it may take an extended period of time for some countries to confidently present fully articulated programs in policy framework papers.

In the staff's view, a case-by-case approach would be appropriate in assisting members under these circumstances. There are countries where structural and institutional rigidities are not so prevalent that they severely inhibit the effectiveness of macroeconomic, exchange rate, and pricing policies to address the immediate major economic imbalances. The Fund could assist these countries with SAF resources relatively quickly if it adopted a staged approach to the PFP, under which macroeconomic policies and some structural components would be specified to the extent possible up front, but other structural elements would consist largely of plans for further work, which would be elaborated in the later revision of the PFP and implemented only in later phases of the program. Necessary stabilization measures and other actions in the macroeconomic field, including some structural measures under the Fund's

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1/ Where SAF resources are sufficient to close the financing gap and where further recourse to nonconcessional resources is not judged productive, a SAF-only arrangement may be appropriate even in cases where debt considerations do not preclude use of ordinary resources. Haiti and Dominica belong to this category of countries.

competence, could be taken up front. Alternatively, if debt considerations do not preclude further use of ordinary resources, it might be feasible to assist these members by extending a stand-by arrangement first, and a SAF loan after the required analyses of structural measures were completed. A SAF loan and stand-by arrangement could also be combined as appropriate in light of the financing requirements of the country.

There are, however, a limited number of SAF-eligible countries where the debt service burden is excessively heavy over the next several years. Such countries may also have overdue obligations to the Fund and/or unfavorable growth and balance of payments prospects over the medium term. Even following clearance of any arrears to the Fund, in such cases it may not be advisable for the member to enter into a stand-by arrangement since this would add to the already heavy debt service burden or increase the adjustment required to provide the necessary assurance of repayment. Under such circumstances, the SAF may be the more appropriate instrument with which the Fund can extend financial assistance to the member. This could be done in the context of a staged approach which allows immediate financial support under a SAF arrangement. In certain cases, however, if substantive efforts are needed to diagnose the situation and formulate the required policy approach, it may be necessary to delay the SAF, but mobilize the minimum necessary concessional resources while the authorities work with Fund and Bank staff to prepare the technical background material for a SAF arrangement.

4. Coincidence of the annual program and the annual SAF arrangement

In the discussion of the request by Bangladesh for a SAF loan, several Directors expressed concern that the first disbursement was to be made on the basis of an annual policy program that extended for less than five months beyond the date of approval of the SAF arrangement by the Board. 1/ Questions were also raised regarding whether, in this and similar cases, the second annual disbursement would be expected to take place a full 12 months after the first disbursement. This question arises since a somewhat shorter interval between the two annual disbursements might be considered as a means to obtain a better

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1/ The SAF decisions specify that an annual arrangement shall be approved for a member "that has submitted a satisfactory program for the corresponding year ...." The implication is of a close correspondence between the annual arrangement and annual program period. However, the period of the annual SAF arrangement normally begins on the day of the approval by the Board of that arrangement, while, in practice, the annual program period is related to dates associated with the policy formulation process (e.g., fiscal year). For practical purposes, therefore, there are likely to be deviations in the program and arrangement periods.

coincidence between the second (and subsequent) annual program(s) and the second (and subsequent) annual arrangement(s) under the SAF. Directors agreed at that time to address this issue in the context of the present review.

As indicated in Appendix Table VI, in most SAF arrangements approved thus far, the effective program period (i.e., the number of months from Board approval to the end of the policy program period) has covered 9-12 months. In three cases (Dominica, Senegal, and Sierra Leone) the effective program periods were between 7-8 months. Some of these latter cases reflected delays in reaching agreement with the authorities on the appropriate content of the SAF program, at the same time that the authorities desired to keep the programming period consistent with their fiscal year. In one case (Senegal) some part of the delay also reflected scheduling problems associated with the need for prior discussion of the PFP in the Bank Board.

In most member countries, the occasion of the budget preparation provides the best opportunity and the institutional/legal framework for the authorities to consider and to institute new policies, and to amend quantitative forecasts and objectives. In a great number of SAF-eligible countries, it is difficult (or, in some cases, even impossible) to set financial policies for a 12-month period except on a fiscal year basis. Therefore, in such countries, it is highly advantageous to negotiate a policy program on a fiscal year basis and preferably at the time of budget preparation. In many cases, it is also necessary to return for further discussions after the budget is adopted by legislatures. 1/ If the negotiation is concluded only at that time, the program would normally be presented to the Board about three months after the beginning of the fiscal year, allowing the time needed for internal clearance, preparation of Board papers, and a one-month circulation period. Thus, it is to be expected that a normal cycle in SAF arrangements would be for Board approval of an annual program to be sought about 3 months after the beginning of the annual program period.

However, it is not unusual for negotiations to continue for a few months beyond the beginning of the fiscal year, and for a program to be presented to the Board only about six months into the fiscal year. In the case of stand-by arrangements, when such a situation arises the program period is often set at 18 months, beginning at the mid-point of the current fiscal year. Detailed policy specifications and some performance criteria are then set only for the first six months of the program (the second half of the current fiscal year), leaving certain policies and performance criteria for the remainder of the program

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1/ In the second and third year of SAF arrangements, discussions after the conclusion of the fiscal year may also be necessary to provide the appropriate opportunity to fully review and assess performance under the previous year arrangement.

period to be agreed during a review. In the case of the SAF, however, there is no provision for a review. Moreover, under SAF arrangements, a process is begun that will involve the negotiation of not one, but three, annual programs. The absence of a review under SAF arrangements and the need, therefore, to establish a full-year program argues, in most cases, either for the presentation of programs to the Board only after the beginning of the policy program period or for a delay in negotiations of programs to obtain a coincidence between the (next) fiscal year and the arrangement period.

These considerations seem to suggest that some flexibility in the timing of Board presentation of annual SAF arrangements is called for. The staff believes that a delay of about three months in Board presentation is appropriate and should be accommodated. Indeed, in the second and third years of a SAF arrangement such a delay would be helpful if the Board is to be fully informed of the outcome under the previous annual program.

The staff is also of the view that there should be some flexibility in the interval between annual disbursements. Clearly, there will be cases in which the interval is more than 12 months if there are delays (for whatever reasons) in reaching agreement on programs for the second or third years under a SAF arrangement. There will also be cases in which minor differences occur from year to year in the presentation of annual programs to the Board which either shorten or lengthen the interval between disbursements. In most cases, these would be expected to involve only a few weeks and the staff would recommend accommodation in these cases. The major question arises when one annual arrangement (the first, in the case of Bangladesh) begins more than three months or so after the program period and an effort needs to be made to restore better correspondence between the arrangement and program years. There are many good reasons for the program year to remain coincident with the policy-making period of the authorities. Therefore, the only real question would seem to be whether there can be flexibility in the arrangement period and in annual disbursements. If no flexibility is allowed in a case such as Bangladesh, the prospect is for presentation of the second-year program soon after the beginning of the new policy year, but several months prior to the beginning of the new arrangement year. If a full year must pass between disbursements, the second disbursement could occur only some months after Board approval of the new annual program. However, to ensure compliance with the program at the time of disbursement, a review may be necessary. This is contrary to the Board's guidance on SAF arrangements. An alternative is to shorten the disbursement period. This would seem to be the preferred alternative in those cases for which this problem occurs and which have already been brought to the Board for approval or for which negotiations are already fairly advanced. These would be seen as exceptional, however, and major divergences between annual disbursements would be avoided in future cases to the fullest extent possible. It has to be recognized, of course, that this requirement may cause some delay in the presentation of first-year SAF arrangements in the future so as to

ensure closer coincidence of first-year arrangements with the authorities' annual policy-making period. Directors' views on the suggested flexibility in adjusting the annual disbursement period would be appreciated.

VI. The SAF and Mobilization of Resources

When the SAF was established, the Board expected it to serve as a catalyst, encouraging a flow of financial resources from multilateral and bilateral sources over and above what would have been available in the absence of SAF-supported programs. Since PFPs were to provide a description of policy priorities on macroeconomic and structural issues as well as estimates of external financing requirements over the three-year period, it was thought that the papers could provide bilateral donors the type of comprehensive and consistent framework and direction within which individual donors could determine the form and extent of at least some of the aid they provide to SAF-eligible countries. 1/

The availability of additional resources is important for the success of SAF operations for several major reasons. First, the amount of SAF loans themselves is rather modest, and, as discussed above, the authorities of a number of SAF-eligible members have expressed the view that the broad coverage of SAF programs are not commensurate with the amount of the loan. Moreover, some have suggested that the formal involvement of the Bank constitutes by itself additional conditionality. In several Board discussions of requests for SAF loans, a trade-off seems to have been implied between conditionality and additionality: some Directors have expressed a view that conditionality was excessive and, in response, other Directors have contended that such conditionality was essential if SAF programs were to mobilize additional resources.

Second, the preparation of PFPs has been costly in terms of staff resources for both the Fund and the Bank, and unless PFPs are used actively by bilateral and other multilateral agencies, Fund and Bank staff resources required for the preparation of these documents might be considered too large in relation to the return from them. Assistance to members in the design of adjustment programs could be provided more economically by pooling the expertise of the two institutions in a less formal manner.

Finally, and importantly, as discussed above, for countries with excessively heavy debt service obligations over the next several years, it may be appropriate for the Fund to support their adjustment effort

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1/ The importance of the association of additional bilateral and multilateral resources with the SAF was stressed by the April 1986 Interim and Development Committee meetings and was reaffirmed by the September 1986 meetings.

with SAF resources rather than with ordinary Fund resources. In such cases, it is often necessary to mobilize additional concessional resources in order to formulate a viable program; effective coordination of donor support and mobilization of aid resources for these countries through SAF programs are critical for this purpose. Acceptance of the role of the PFP/SAF process in assisting member countries with particularly severe external payments problems would provide the Fund with a flexible instrument better tailored to the financial conditions of the countries concerned.

1. Experience to date

Of the nine SAF loans approved in 1986, in two cases (Dominica and Haiti) intensive contacts among the authorities of the borrowing country, bilateral aid agencies, the World Bank, and the Fund were held during the process of formulation of the SAF program. Discussions centered on major policy elements of the PFPs, and the papers were presented later to the meeting of the Sub-Group of the Caribbean Consultative Group. U.S.AID has indicated that its assistance to these countries was increased as a result of this process. In the case of The Gambia, a donor meeting was called to mobilize resources and major policy elements included in the PFPs were discussed at this meeting. Before arrears to the Fund were cleared, talks were also held with donors on the basis of the major policy elements which were subsequently included in the SBA and the SAF program. It is difficult to assess the catalytic role of the SAF in this case, however, since it was accompanied by an SBA and a Bank SAL. In another case (Niger), the Government prepared a medium-term financial plan on the basis of the PFP that will be discussed at a donor conference in June 1987. For Sierra Leone, however, the PFP was not used by donor agencies in the process of determining aid availability; in this sense, the PFP was not instrumental in raising additional resources. In the case of Bolivia, while the PFP was provided to the Consultative Group meeting as a supplementary document, no pledging of aid was made because the sector investment program had not been formulated by that time. For the remaining countries (Burundi and Mauritania) the PFP has apparently not yet been used in contacts with donors.

Thus, in all cases but three, there have apparently been no bilateral resources associated with the PFP/SAF process either directly or indirectly. In the exceptional three cases, the association was rather vague and the amounts involved were relatively small. There is no indication that PFPs are generally integrated into the operations of aid agencies. To the contrary, the recent discussions held between the staff and major donor governments suggest that in most aid agencies the process of using PFPs is, at best, just beginning.

2. Bank lending to SAF-eligible countries

In the Bank Board's discussion of the Trust Fund proposal by the United States, 1/ Bank Directors agreed that the multiyear strategies adopted for the low-income countries would need to be supported by the Bank and the Fund as well as by bilateral and other multilateral sources of concessional financing. A majority of Directors supported the concept, contained in the U.S. proposal, of using Bank Group resources, particularly those of IDA, in conjunction with the SAF resources. For this to be a meaningful exercise, however, many Bank Directors stressed the need to secure true additionality and achieve expanded and coordinated financial support among the Bank, the Fund, and other suppliers of concessional funds. A number of Directors defined this additionality in terms of an IDA-VIII replenishment which would be at the upper end of the range of US$10.5-12.5 billion (assessed at the exchange rates prevailing at that time); several said that a replenishment of at least US$12 billion would be necessary to ensure an appropriate comparability between the resources to be provided by the Bank and the Fund.

In late 1986 agreement was reached on IDA-VIII of US$12.4 billion under which US$3-3.5 billion would be available to be used to support adjustment lending in conjunction with SAF resources, to the extent feasible, in eligible countries. Bank staff are now working out the country allocations under IDA-VIII in accordance with the guidelines approved by the IDA Deputies.

For most SAF-eligible members for which PFPs have been reviewed by the Bank Board, the Bank had structural adjustment loans/credits or sector adjustment loans/credits already in place before the PFP was reviewed (Appendix Table VII). For some of these members (Dominica and Haiti), the Bank is currently preparing a SAC or sector adjustment loan. The Bank now accepts that a SAF arrangement can provide the assurance that the country has agreed to undertake macroeconomic policies required for balance of payments adjustment. In these cases, the Bank will be kept informed of the progress of monitoring SAF programs.

The Bank staff has indicated that the Bank regards the conclusion of a SAF agreement (and the associated monitoring arrangements and quarterly reporting) as providing an assurance that macroeconomic policies will be consistent with the objective of balance of payments adjustment and thus providing a basis for the kind of structural

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1/ Mr. Foster, the U.S. Executive Director in the Bank, presented the U.S. proposal to the Bank subsequent to Mr. Dallara's presentation of the same proposal to the Fund Board. Mr. Foster's statement was attached to the Bank staff paper on the Trust Fund proposal (Sec.M86-200, February 25, 1986).

measures which the Bank could support through its adjustment credits. The PFP delineates the kinds of measures which are needed for both the SAF and adjustment lending. The PFP document and the SAF agreement provide important evidence of the credibility of a government's commitment to the adjustment process and are therefore significant inputs into the Bank's decision on whether to embark on or continue a program of adjustment lending. For those countries in which PFPs and SAFs are agreed, this is likely to be associated with larger levels of adjustment lending than for countries where this is not the case.

There is as yet no strong evidence that the PFP has actively served as the basis of development of more detailed Bank programs, and there are as yet no identifiable links between the preparation of PFPs and the Bank's policy-based lending. The Bank has indicated, however, that where members are willing to undertake structural adjustment reform programs, the Bank's lending will increase and the PFP will be used actively in this process. At the same time, however, the Bank sees difficulty in attributing causality to the PFP/SAF.

3. PFPs and aid operations

A consensus has emerged in the international donor community that aid cannot be effective in the absence of a stable macroeconomic environment and economic policies conducive to long-term growth. A number of major bilateral aid agencies now extend assistance in support of policy reform, and the availability of aid resources is linked increasingly to the existence of Fund-supported programs. Some agencies have shown willingness to convert project assistance to quick-disbursing program loans in support of balance of payments, while others maintain a margin in their budget to provide cash assistance to countries undertaking a serious adjustment effort. Some agencies engage in a policy dialogue with the recipient government, and a few discuss programs of economic priorities and policies in connection with extending financial assistance.

Thus, there is now a greater need to coordinate operations of aid agencies more effectively in order to (i) direct resource flows to countries, as well as to sectors and projects within countries, that can utilize assistance most productively; (ii) avoid giving conflicting policy advice; and, importantly, (iii) avoid overburdening the limited administrative capacity of recipient governments. While appreciating the recent improvements in the organization of consultative groups and round tables, DAC members have invited the lead agencies to pursue their efforts to improve arrangements for aid coordination by, inter alia, revising the format of Consultative Group meetings to facilitate more frank and substantive exchange of views on key policy issues and problems; more careful review of recipient investment plans; fuller discussion of the aid implications of structural adjustment programs;

and better assessment of the overall financial situation, including trade prospects and debt service requirements. 1/

Against this background, a Fund staff team joined by Bank staff visited some major donor countries and the EC to brief them on SAF operations to date and to solicit their views on prospects for mobilizing additional bilateral resources and on the potential usefulness of PFPs for aid operations. The officials with whom the mission met were unanimous in the view that the PFP could potentially serve a very useful purpose in providing a consistent policy/financial framework which would help each agency assess its aid operations in the subject country and influence both the level and composition of assistance. Most of the aid officials the mission met were not in the position to make suggestions on specific adaptations of the content of PFPs to make them more useful for these operations. However, those familiar with the papers suggested that PFPs should provide, inter alia: (a) a more complete diagnosis of structural and/or sectoral problems, some of which bilateral donors could attempt to help rectify through their adjustment loans; (b) more detailed discussion of growth prospects, with particular emphasis on sectors where growth could be expected, which bilateral donors could support through their sector loans; and (c) a more detailed description of financial requirements, linked more directly with specific types of aid operations. The authorities of the countries visited stressed that a multitude of aid-related documents already circulate, and that duplication should be avoided; they noted that longer term developmental and social problems are usually addressed in other documents prepared by the Bank. To this end, a potential was seen for the PFP to serve as a "steering brief"--to help define the medium-term policy reforms needed to restore growth, to guide bilateral donors toward a global view of the macroeconomic, structural, and sectoral policies required in SAF-eligible countries, and as a device to improve the coordination and quality of bilateral aid. Some of the suggestions of aid officials were quite ambitious and beyond the scope of any of the PFPs that have been prepared to date.

In order to facilitate a wider circulation of PFPs while maintaining confidentiality of Fund-supported programs, the authorities of some donor countries suggested that while discussions of the nature and extent of macroeconomic and structural reform to be sought over the next three years would be essential, detailed description of specific policy commitments under the SAF arrangement need not be included in PFPs; such discussions could be presented in letters of intent for SAF loans. This arrangement would also help preserve the independence of Fund financial assistance from general aid operations that are influenced by a large number of factors, some of which are political.

1/ "Aid for Improved Development Policies and Programmes and Implications for Aid Co-ordination: DAC High-Level Meeting Conclusions" PRESS/A (86)61, paragraph 23, adopted in the 1986 DAC High-Level Meeting.

While stressing the potential usefulness of PFPs in aid operations, the authorities of most of the donor countries visited do not envisage a direct linkage of particular aid operations with the PFP. Rather, the authorities maintain that PFPs would be used more generally--perhaps as background information--to determine the overall level and direction of economic assistance.

As regards the possible role of the PFP process in aid coordination, most officials of the countries visited favored informal ad hoc contact between their own agencies and the Fund and Bank staff on countries for which the agency is prepared to provide substantial financial assistance. Some agencies thought active use of PFPs in the mini or tight consultative group framework may be promising. There was no support for creating new formal arrangements to discuss PFPs, to mobilize aid resources, or to coordinate operations of aid agencies. It was stressed, however, that if donor support is to be sought in the context of SAF programs, discussion of elements of PFPs with aid agencies would be critical at a formative stage of program preparation; such discussion would provide the agencies with the time needed to adjust their operations and the opportunity to express their concerns so that they could be reflected in the programs. On a more general plane, the need for close contact between the Fund and the aid agencies was well recognized, and all countries welcomed informal contact in the respective capitals, in Washington, or in the field.

4. Association of bilateral aid resources with the SAF/PFP process

There are many ways in which bilateral official development assistance could be associated with the SAF and related Bank operations or, more generally, with policy reforms identified in PFPs. The staff has considered a number of possibilities. Bilateral assistance could take the form of (i) a general balance of payments support loan, or project or program lending, to augment SAF loans, (ii) cofinancing or some form of assistance in parallel with World Bank lending in support of policies identified in the PFP, or (iii) a parallel bilateral program loan based on certain elements of the PFP. While there are a number of other possibilities, it would be preferable for the link between the particular aid operation and the PFP to be clearly identifiable so that the bilateral assistance, the SAF loan, and World Bank lending are perceived by the borrowing member countries as an integrated package of support for its program of policy reform.

In the discussions with donor countries, the staff found virtually no support for the direct association of aid resources with SAF loans per se. For some of these countries, budgetary considerations preclude provision of additional assistance at this time in direct association with the SAF. In other countries, such association was thought to be problematic for any one of a number of reasons: (i) an explicit and more identifiable relationship between the donor and recipient countries is important for bilateral aid operations; (ii) direct linkage of

bilateral aid with the Fund is questionable because the Fund should not be perceived as an aid agency; and (iii) such association would necessitate a realignment of national bureaucracies since in some countries the Fund is strictly under the purview of the Treasury and/or the Central Bank. In some capitals, it was feared that the direct association of SAF loans and bilateral aid would open an avenue through which Fund decision making might be more directly subject to political considerations.

The absence of direct association of aid with SAF loans does not necessarily imply that the availability of aid resources would not be affected by SAF programs. In most major donor countries, program aid, budget support loans, structural (sectoral) adjustment aid, and/or certain other types of assistance have in various ways already been associated with Fund-supported programs. There have been cases where the amount of aid was raised in support of Fund-supported programs and others where aid disbursements were reduced or delayed in response to a failure of such programs. In this connection, the authorities of some donor countries showed particular interest in the conditionality of SAF programs and the monitoring arrangements under such programs. In their view, strong SAF programs and close monitoring would be essential if the SAF is to serve a catalytic function in their aid operations.

Officials in a few of the donor countries contacted indicated that they were prepared to explore the possibility of extending program aid in parallel with the PFP/SAF process. It appears, however, that it would take some time to work out modalities that would meet the concerns of all parties involved. Several of these countries already have cofinancing arrangements with the World Bank through the Special Joint Facility for Sub-Saharan Africa and/or with Bank project or adjustment loans. They indicated that they would examine the possibility of expanding such cofinancing arrangements.

All of the donor countries visited maintained that the additionality of resources for the SAF lies primarily in IDA-VIII and pointed to the provision of US$3-3.5 billion to be used for adjustment lending in conjunction with the SAF to the extent possible. At least one of these countries contended that IDA-VIII would have been substantially smaller except for the acceptance by the membership of the PFP approach. In the view of the majority of the donor countries visited, the usefulness of PFP exercises goes beyond the considerations related to the mobilization of bilateral aid resources; in their view, the PFP is fundamentally a vehicle to ensure full collaboration between the Bank and the Fund.

5. SAF and the Paris Club 1/

In general, Paris Club creditors require debtor countries seeking a restructuring of their debt service obligations to enter into an upper credit tranche arrangement with the Fund. However, in three recent cases involving MYRAs or extended consolidation periods, official reschedulings were based, at least for part of the consolidation period, on enhanced surveillance procedures. Creditors attached importance in these three cases to the provisions for twice yearly reviews under enhanced surveillance, and in the Agreed Minute they made the rescheduling conditional on the country setting forth and implementing a quantified, quarterly macroeconomic program.

During the January 1987 Paris Club meetings, creditors decided to consider, on a case-by-case basis, debt reschedulings on the basis of a SAF program alone. Creditors considered it essential for the purposes of Paris Club reschedulings that SAFs in these cases contain a well-specified macroeconomic program and quarterly benchmarks to permit effective monitoring of progress under that program. Creditors also thought it necessary that there be procedures in the event that performance under the program diverged significantly from the benchmarks. The points raised by the Paris Club do not appear to require any changes in present SAF modalities as SAF arrangements already provide for the possibility of consultations with the Managing Director, at his or the authorities' request. Also, as noted earlier in the paper, most annual SAF programs already contain quantified quarterly benchmarks related to the monitoring of performance under the program.

1/ A discussion on this topic is also contained in the staff paper on "Implementation of the Debt Strategy--Current Issues" (EBS/87/38, 2/20/87).

Access to the Structural Adjustment Facility

When the Structural Adjustment Facility (SAF) was established in March 1986, it was agreed that eligible members should be assured access to the facility on a uniform basis in terms of quotas, pending a general review of the operation of the SAF to be undertaken not later than May 31, 1988. In setting members' potential access to the facility, it was necessary to take several factors into account. First, the resources available to the facility consist primarily of Trust Fund repayments and interest scheduled to be received over the period through early 1991. Second, SAF commitments may be fully disbursed within two years of the date of the commitment, and many, perhaps all, SAF loans would need to be fully disbursed long before all Trust Fund reflows are received. Third, there is considerable uncertainty about the timing of commitments and thus about the possible profile of disbursements within the period of receipt of Trust Fund reflows.

In light of these considerations and projected receipts of Trust Fund reflows, it was decided to establish eligible members' access initially as the equivalent of 47 percent of quota over the three-year period of SAF arrangements. This was based on the total of eligible members' quotas and on the amounts that would be available to fund SAF arrangements by the end of 1988, taking into account the possibility that most or all eligible members would qualify for SAF arrangements by the end of 1986 and that the loans would accordingly be disbursed in full by end-1988. It was also decided that first-year disbursements would be equivalent to 20 percent of members' quotas, to be disbursed upon approval of arrangements, provisionally implying access of 13.5 percent of quotas for each of the second and third years of members' arrangements. It was envisaged that the situation would be reviewed prior to the initiation of disbursements for the second and third years, with a view to enlarging commitments, taking into account the receipts of funds for the SAF, the actual experience with the timing of SAF commitments and disbursements, and the fact that additional Trust Fund reflows would be available to fund arrangements approved in later stages of the SAF's operations. A general review of the operation of the SAF, to be held not later than May 31, 1988, would consider, inter alia, the disposition of any uncommitted resources remaining available to the facility. 1/

Table 1 below provides information on resources available to the SAF at end-1986, and Table 2 provides updated projections of amounts expected to become available to the SAF through the scheduled completion of Trust Fund reflows in 1991. In light of the pace of commitments to

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1/ More detailed discussion of considerations relating to access to the SAF is provided in "Use of Resources of the Special Disbursement Account" (EBS/85/283, 12/17/85), pp. 10-16, and "Use of Resources of the Special Disbursement Account--Further Considerations" (EBS/86/53, 3/4/86), pp. 12-17.

date, it is clear that SAF disbursements for most eligible members will not be completed by the end of 1988. However, at least preliminary discussions have been held or are expected shortly with members representing nearly 90 percent of eligible members' quotas, and it is possible that members accounting for a large proportion of total quotas would qualify for arrangements by the end of 1987, which would imply that disbursements for those members would likely be completed by end-1989. In order to assure all eligible members of potential access on a uniform basis, the recalculation of access would need to take into account the projected availability of resources to the SAF through 1989. The total of eligible members' quotas (assuming the Executive Board approves the addition of Kiribati and Tonga to the list, as proposed in EBS/87/44, 2/25/87) amounts to SDR 4,191.75 million. Resources currently projected to be available to the SAF by end-1989 total SDR 2,481 million (including SDR 81.8 million that has already been disbursed), or 59 percent of quotas, without any deductions for overdue obligations which currently amount to SDR 63 million. Taking into account the possibilities that additional Trust Fund obligations may become overdue (including the possibility that members could fall into arrears on such obligations after having received SAF disbursements), which would impair the ability of the SAF to make full disbursements, that the list of eligible members could be expanded further, and that there may be some shortening of disbursement periods (see page 36) it would seem reasonable to raise disbursements for the second year of all eligible members' arrangements from 13.5 percent to 20 percent of quota, i.e., the same level as for initial disbursements. This would result in an increase in access under three-year arrangements from 47 percent of quota to 53.5 percent of quota. A further review and recalculation would be made during the first part of 1988, before the initiation of disbursements for the third year of members' arrangements, and with a view to further enlargement of access, if possible, in light of the circumstances at that time.

Table 1. Resources and Disbursements of the Structural Adjustment Facility (as of December 31, 1986)

(In millions of SDRs)

Resources	
Trust Fund repayments and interest	736.7 1/
Transfers from SFF Subsidy Account	28.3
Investment income	32.3
Special charges on overdue Trust Fund obligations	0.3
Interest on SAF loans	-- 2/
Total	797.6
Disbursements on SAF loans	81.8
Balance at December 31, 1986	715.8

1/ Excludes overdue Trust Fund obligations, overdue special charges, and overdue SAF interest totaling SDR 63.1 million.
2/ Less than SDR 50,000.

Table 2. Projected Amounts Available to SAF
(as of December 31, 1986)

(In millions of SDRs)

	Interest Income 1/	Trust Fund Loan Repayments	Cumulative Receipts
Balance available to SAF 2/			714.3
Overdue obligations	3.4 3/	59.7	777.4
1987			
January-June	16.3	297.9	1,091.6
July-December	21.8	294.8	1,408.2
Total 1987	38.1	592.7	
1988			
January-June	6.5	282.6	1,697.3
July-December	6.5	267.9	1,971.7
Total 1988	13.0	550.5	
1989			
January-June	6.5	213.8	2,192.0
July-December	6.5	200.9	2,399.4
Total 1989	13.0	414.7	
1990			
January-June	6.5	161.2	2,567.1
July-December	6.5	104.8	2,678.4
Total 1990	13.0	266.0	
1991			
January-June	6.5	47.6	2,732.5
Total 1991	6.5	47.6	

1/ Includes interest totaling SDR 27.1 million payable at maturity on existing investments. Interest at rate of 0.5 percent is assumed on other SDA-related assets.

2/ Figures reflect a deduction of SDR 1.5 million for repayment of loans extended to the Trust Fund.

3/ Includes SAF interest and special charges due to the Trust Fund.

Design of SAF Programs

Upon requesting SAF arrangements from the Fund, the authorities are to present (i) the policy framework paper (PFP), (ii) a three-year macroeconomic and structural adjustment program, and (iii) the first of three annual programs specifying the objectives for the year, the policies to be followed during the year to meet those objectives, and benchmarks to be employed to track progress in the adjustment effort. The three-year adjustment program and the annual program are to be drawn from the more broadly cast PFP, focusing on areas of special interest to the Fund. This annex examines the principles and practices of SAF programs as they have been applied in the arrangements under review. It first discusses the broad objectives of SAF programs, followed by a review of the adjustment strategy and policies envisaged in the ten programs supported by SAF arrangements approved by the Executive Board until February 1987.

1. Objectives of programs

The broad objective of SAF programs has been the restoration and maintenance of viability in the balance of payments and the attainment of high and sustainable rates of economic growth. 1/

a. Economic growth

In the context of SAF programs, the growth objective can be described as that of maximizing output while bringing the relationship between the use of foreign exchange resources and the rate at which they become available to an appropriate balance. There are two dimensions to the question of the growth: in the short run, i.e., during most of the period of external adjustment, the path of economic growth is mostly a matter of the performance of actual output relative to its potential or capacity level; in the long run, growth performance is largely determined by the level, growth, and quality of the stock of factors of production.

All programs approved to date have contained quantified growth targets for the three years covered by the SAF arrangement (Table I). Over this period, programs have generally aimed at a growth rate higher than that recorded over the immediate past--in most cases, an average annual rate of GDP growth of 3-4 percent; in three cases, 2/ the target

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1/ The relationship between these two objectives is multifaceted--indeed, one may not realistically be achieved without the other--and has been the subject of numerous studies. The paper on "External Adjustment, Financing and Growth: Issues in Conditionality" (EBS/87/40, 2/25/87) and related background papers provide an overview of the issues involved, as well as references to the broader literature.

2/ Bangladesh, Haiti, and Mauritania.

was nearly 5 percent, while in one case 1/ it was only slightly above 2 percent. Thus, in all but one case (Niger), an increase in per capita income was aimed at.

In targeting economic growth over the adjustment period, a number of factors that determine the flow of output relative to its potential have to be considered. First, policies affecting the availability of imported inputs may impinge on growth in economies which are highly dependent on such inputs. 2/ Second, it is often observed that agricultural or other productive resources are idled because of inadequate price incentives; in such situations, adjustment of producer prices may yield a relatively quick supply response. Third, a number of countries eligible for SAF assistance feature quantitative mechanisms for the allocation of input and output, marketing monopolies, and/or institutional rigidities that inhibit efficient resource use. In particular, the allocation of foreign exchange is often administered by the Government and its availability limited by the maintenance of unrealistic exchange rates. Exchange system reforms that aim at liberalizing access to foreign exchange while bringing the exchange rate to a realistic level may not only raise the availability of foreign exchange but also ensure that it goes to those who can use it most efficiently. Finally, the level of demand for domestic output is, of course, another important factor. While the level of aggregate domestic demand may need to be reduced in the context of SAF programs, the way in which such a reduction affects domestic production depends critically on how demand is shifted away from imported goods, e.g., by more appropriate pricing of such goods, and on whether there is additional foreign demand for domestic output, stimulated for instance by improved export competitiveness.

In sum, the determination of output in the short run is complex, and it is unrealistic to attempt precise projections. It is also not useful to set a target solely on the basis of normative considerations, in abstraction of the complex relationships illustrated above. What needs to be assured is the direction of change in output to be brought about by certain policy changes; that is, an identification of the principal sources of growth and the strategy envisaged to tap these sources. The focus, therefore, should be on setting the correct policies, rather than on growth targets per se.

1/ Niger.

2/ Even in cases where it is judged necessary to reduce reliance on foreign savings through a reduction in imports (relative to pre-program levels), it may be noted that SAF arrangements, through the provision of financing in support of a process of orderly adjustment, allow for a higher level of imports than would likely be possible in the absence of such arrangements, as adjustment would inevitably be carried out. In avoiding an eventual sharp and disorderly contraction in imports, SAF arrangements as such tend to permit higher growth rates during the adjustment period than otherwise.

In all programs under review, a substantial contribution to growth in the near future was expected to derive from improved performance of the agricultural sector. Another important source of growth that features prominently in most (8 out of 10) programs reviewed is the tradables manufacturing sector. 1/ Among other sectors where significant growth was envisaged in individual cases are mining (Bolivia and Mauritania), fishing (The Gambia and Mauritania), and tourism (Dominica and The Gambia).

The authorities in SAF-eligible countries have obviously been faced with significant constraints that have prevented them from seeking even higher growth rates than those actually targeted. For example, in the case of Niger, the program explicitly recognizes the natural and structural constraints that will limit the country's growth prospects for years to come. 2/ In other cases, the needed restructuring of exports away from products with weak or uncertain prospects on world markets, 3/ or toward activities with higher comparative advantage, 4/ will take time and involve significant transitional costs. In some cases, international commitments or domestic institutional constraints (for example, membership in currency unions) may forestall the use of certain policy instruments in the short run, which in turn has implications for growth. 5/ In a majority of cases, finally, it was recognized that short-term growth may be affected by the need to adjust aggregate demand from the unsustainably high levels of the recent past to those consistent with the available amounts of foreign financing and/or those amounts that could be used efficiently in individual countries, i.e., in a way that enhances the countries' future debt service capacity so that they can carry the additional debt.

As the time horizon expands beyond the short run, the future level, growth, and quality of the stock of productive factors becomes more and more important for the growth performance of the economy. In order to create the conditions most conducive to growth over a longer period,

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1/ Of all the programs reviewed, only those of Bolivia and Burundi do not emphasize that sector as a principal source of growth.

2/ The 2 percent annual growth rate projected over the three-year program period is explained in part by references to the country's vulnerability to fluctuating weather conditions, the small size of the domestic market, its landlocked position, the degradation of soils, lack of adequate education and consequent limitations imposed by the human capital base, and the weak outlook in the world uranium market.

3/ For example, exports of tin in Bolivia, and jute in Bangladesh.

4/ For example, coffee versus grain production in Haiti.

5/ Of course, international arrangements, such as a currency union obviously serve to help achieve other important economic objectives, and authorities of currency union members have stressed that these arrangements have served their countries well and that their advantages outweigh the disadvantages of less flexibility in the exchange rate area.

therefore, a satisfactory level and productivity of new investment becomes increasingly relevant. Investment strategies and policies in SAF-supported programs are reviewed in detail in subsequent sections. Generally, the direct and immediate focus has been on the level and quality of public investment during the program period as it is under the direct control of the authorities; in addition, the structural policies incorporated in programs are also aimed at the long-run growth performance of an economy as they affect both the level and productivity of private investment. In this regard, while all programs under review envisaged significant increases in domestic investment in order to foster growth prospects beyond the program period, only one program (Niger) included a quantification and broader discussion of the country's growth potential over the longer run and its relation with the adjustment program over the next few years.

b. External objectives

The external objectives of SAF arrangements reflect the ultimate goal associated with the use of Fund resources, viz., to assist members in overcoming their balance of payments problems in a manner consistent with the purpose of the Fund and under safeguards that ensure that the use of its resources is temporary. There needs to be assurance that the member will be able to discharge its external payments obligations, including those to the Fund, in an orderly fashion. Thus, while aiming at substantial progress toward external viability during the three-year period, to the extent that SAF resources carry interest of only one half of one percent and are repayable over five and one half to ten years, SAF programs could allow a slower pace of external adjustment than that targeted under stand-by arrangements. When debt servicing difficulties have been encountered and continue to be in prospect, the program should aim at an orderly resolution of these difficulties. While the ultimate goal is to eliminate the need for debt rescheduling or other forms of exceptional financing, the extent of progress toward this goal that can be achieved during the three-year period of an arrangement will depend both on the severity of the existing external debt burden and on the capacity of the economy to adjust.

The majority of SAF-eligible countries have not experienced acute debt servicing difficulties, and for these countries, the internal staff guidelines envisage that their external debt will continue to be fully serviced on schedule from the outset of the three-year period. For eligible countries that have experienced less severe debt servicing problems, the guidelines anticipate that (i) the proportion of their debt service obligations that need to be deferred as well as the reliance on other forms of exceptional financing will decline steadily and substantially during the three-year period; (ii) in those cases where the need for rescheduling remains beyond the three-year period, it would be on terms normally accepted by the Paris Club, and the current account deficit will have been reduced to a level that, in itself, could be considered sustainable; (iii) all foreign borrowing contracted during and after the three-year period will be serviced on schedule;

(iv) normalcy in short-term trade credit operations will be restored, at least by the end of the three-year period and hopefully much earlier. On the other hand, in some cases, even with the prompt implementation of a strong adjustment effort, the need for exceptional financing must be expected to continue beyond the program period, although the extent of reliance on such financing should be reduced significantly over time.

The balance of payments objective is defined mainly in terms of the current account balance as this indicates the rate at which a country's net liability position vis-à-vis the rest of the world changes; in addition, programs typically include targets for the overall balance of payments position reflecting the fact that orderly external payments relations in most cases require an adequate level of international reserves. The path of external current account adjustment is determined by (i) the availability, in terms of amount and timing, of foreign savings and (ii) an assessment of the amount of foreign savings that a country can absorb in view of future debt service obligations. No simple pattern for the current account deficit can be applied to all SAF programs. Thus, in cases where the external indebtedness is already high and domestic expenditure is beyond the sustainable level, the program might attempt to curb such expenditure and bring about a reduction in the current account deficit; the programmed level of expenditure, however, might still be higher than it would be in the absence of a program, to the extent that the SAF program aims at mobilizing additional resources (on both current and capital accounts). On the other hand, the program may envisage an increase in the current account deficit if it could be assured that the expenditure underlying such deficits would be productive and efficient and if larger financing than in the past would be available on a sustainable basis and on terms consistent with a viable external debt outlook. Also, if world market prospects for a major commodity were such that a significant price decline had to be anticipated, 1/ a realistic program may have to incorporate a temporary widening of the current account deficit, to the extent that an immediate adjustment to the lower level of export earnings is deemed inappropriate or infeasible.

In the ten programs under review, targets with respect to the current account deficit indeed differ considerably. 2/ Four of the programs reviewed 3/ aim at a marked reduction over the three-year period in the current account/GDP ratio (on average by 7 percent of GDP

1/ For example, coffee prices in the case of Sierra Leone, which were assumed to have reached the peak of their expected cycle in the pre-program year.

2/ Current account deficits throughout this annex are presented before grants. Inasmuch as such deficits can be financed by grants or other nondebt creating inflows, they do not have future debt service implications, although a judgment still has to be made as to whether such flows can be expected to be maintained over the medium term.

3/ Dominica, Mauritania, Senegal, and Sierra Leone.

relative to the year prior to the inception of the program). Of the other five programs, in one case (Burundi) a substantial reduction in the current account deficit in the first program year, due largely to a sharp improvement in the terms of trade, is expected to be reversed in the following year. In three other cases (Bangladesh, Bolivia, and Niger), the current account profile over the program period is virtually flat at around 7-8 percent of GNP; in the case of Haiti, the program entails a widening of the current account deficit, from 4.8 percent of GDP at the outset to 7 percent in the last year of the SAF arrangement. Finally, under the program for The Gambia, the current account deficit/GDP ratio would widen sharply in the first program year (by about 10 percent of GDP); 1/ the deficit would decline in the subsequent two years to about its pre-program level. 2/ In three of the cases where less emphasis is being placed on a reduction in the current account deficit (Bangladesh, Burundi, and Haiti), significant exchange and trade liberalization is being undertaken as a major structural element of the program to be supported by the use of SAF resources. Also, prospects on world markets for key exports differ considerably across program countries. 3/ In some cases (e.g., Haiti and Niger) official grants or concessional loans are expected on a scale that would reduce financing from nonconcessional sources to sustainable levels.

As regards progress toward graduation from exceptional financing, four of the programs reviewed (Bangladesh, Burundi, Dominica, and Haiti) have not sought external debt rescheduling and are not expected to in the future. In two cases (Niger and Senegal), the programs aim at the elimination by the end of the three-year program period of the need for exceptional financing. 4/ In the remaining four cases, financing gaps and the need for exceptional assistance are projected to persist--albeit on a progressively reduced scale--beyond the program period. However, reflecting the targeted improvement in the debt profile, even in the few cases where the adjustment path would entail a widening in the current account deficit, the debt service ratio is projected to decline significantly over the three-year period (except for Burundi and Dominica where the ratio would remain around 19 percent and 9 percent,

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1/ This rise in the ratio is due mostly to a decline in the SDR value of GDP because of currency depreciation. In SDR terms, the deficit would widen only marginally, from SDR 33 million in 1985/86 to SDR 35 million in 1986/87.

2/ The deficit for the third program year is targeted at SDR 30 million, or 21 percent of GDP.

3/ Of course, current account deficits have debt service implications regardless of their cause (unless financed by nondebt-creating flows) which have to be taken into consideration in the programming exercise, and the question of availability of foreign savings may be a constraint no matter what the reason for such deficits.

4/ In the case of Niger, the latest debt rescheduling was already limited to principal.

respectively). For all countries facing a heavy debt service burden, 1/ a marked reduction in the debt service ratio was programmed, resulting in an average reduction by over 17 percentage points in their debt service ratios. For all ten programs under review, the average decline is by about 10 percentage points.

Regarding the programs' reserve objectives, all programs but one envisage a strengthening in the gross reserve position over the program period. 2/ In the case of Bolivia, reserves were ample (equivalent to almost one year of imports) at the outset of the program and thus there was no need for any further reserve buildup. In most other cases, gross reserves at the end of the program period were projected around or above a level equivalent to two months of imports. The targeted reserve buildup was to be attained by substantially larger overall balance of payments surpluses in a number of countries where repurchases from the Fund are projected to exceed expected purchases under the SAF arrangement. Only in the case of Haiti was the gross reserve target relatively low (1.2 months of imports starting from a position of slightly below one month at the outset of the program).

2. Adjustment strategy

To strengthen the medium- and long-term growth prospects, while at the same time enhancing the countries' future foreign exchange earning capacity, in all but two cases a substantial increase in the investment/GDP ratio was envisaged. 3/ Moreover, programs typically aimed at improving the efficiency of resource use with a view to "pushing" the economy toward its production frontier and maximizing the productivity of new investment.

The increase in domestic investment was to be derived primarily from a pickup in private sector investment; on average, an increase in private investment by about 2 1/2 percent of GDP was targeted, 4/ with

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1/ In five out of nine cases, debt service at the beginning of the program absorbed more than one third of export earnings (Bolivia, The Gambia, Mauritania, Niger, and Sierra Leone).

2/ No such targets were formulated for Niger and Senegal in reflection of these countries' membership in the West African Monetary Union.

3/ In the case of Mauritania, a cutback in investment--already implemented in large measure in 1985/86--had been considered necessary in view of the unsustainably high rates of investment in the past and the need to eliminate unproductive projects. In Senegal, the ratio would remain roughly unchanged over the program period, resulting in a small decline relative to the three-year pre-program average.

4/ This average is calculated from the seven programs that included quantified targets for investment for the whole program period; the increase refers to the three-year average recorded prior to the SAF program period.

projections ranging from an increase by around 5 percent (Bolivia and Burundi) to a roughly unchanged private investment/GDP ratio for Senegal. In most programs, the strategy to induce the desired expansion in private sector investment and to improve its efficiency combined (i) increased availability of savings to be invested; (ii) improvement in the institutional and regulatory framework for productive investment; (iii) a relatively liberal exchange and trade system; and (iv) an appropriate structure of relative prices, including the exchange rate.

There was no program where a large-scale increase in public investment was envisaged, and in only four cases was a moderate increase in the public investment/GDP ratio programmed. In this regard, the major emphasis was clearly placed on productive efficiency and financial viability of new projects. To this end, public investment was to be focused typically on those areas of the economy with the highest production potential and on projects that are efficient, cost effective, and with limited and clearly defined recurrent cost implications.

The question of how to maximize growth in the shorter run, i.e., how to raise the flow of output from the existing stock of capital, was addressed primarily by the programs' strategy of redressing the structure of incentives and relative prices, both within the economy and in comparison with those prevailing in the rest of the world. This frequently required modifications of key prices in the economy, in particular the exchange rate, interest rates, external tariffs and those prices hitherto determined by price control systems. Likewise, where other structural distortions, serious deficiencies in infrastructure, and/or supply bottlenecks were identified as major constraints on growth in the short run, their removal was typically one element of the programs.

To allow for the targeted increase in private investment while pursuing the programs' stabilization objective, all programs aim at (i) a substantial narrowing in fiscal deficits and (ii) an improvement in domestic private savings. In all but two cases, a substantial reduction in the overall fiscal deficit 1/ was programmed, 2/ notwithstanding, in a number of cases, a measured increase in public sector investment (see above). On average, a reduction in fiscal deficits by close to 3 percent of GDP was targeted over the three-year program period (3 1/2 percent excluding Burundi and Haiti). The fact that public investment was not to be curtailed under most programs

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1/ The figures for fiscal deficits are not strictly comparable across program countries due to differences in coverage; e.g., in some cases public sector operations include nonfinancial public enterprises, while in other cases figures refer to government operations only.

2/ The two cases where an increase in the fiscal deficit was envisaged (Burundi and Haiti) were those where some weakening in the external current account position was deemed to be compatible with the medium-term viability.

implies that the principal avenue to narrow fiscal deficits was an increase in fiscal savings. 1/ Moreover, there was an emphasis on the composition of expenditure to safeguard productive expenditures. 2/

In addition to the targeted reduction in the fiscal imbalance, an improvement in private sector savings was also generally expected, although on a smaller scale. 3/ As a result, for the seven programs that specify a target for the third program year, the average increase in total domestic savings relative to the levels recorded over the three years prior to the start of the program is around 5 percent of GDP, with the most significant improvements aimed at in the cases of Mauritania (11.6 percent) and Bolivia (7.7 percent).

The strategy to emphasize the public sector when seeking to redress aggregate financial imbalances reflects in part the fact that the authorities have control over the fiscal accounts and can devise measures to affect them directly. Moreover, in low-income countries where large parts of the population live at or near the subsistence level, curtailment of private consumption may be undesirable, or needs to be at least limited with a view to protecting the poorest segments of the society. Of course, private savings could increase while allowing for an increase in private consumption as long as income rises at a faster pace. In this regard, specific policy measures are included in most programs with the aim of inducing a strengthened savings performance of the private sector; these measures are reviewed in detail in the following section. They generally involve a shift in the structure of incentives toward financial or productive investment. Such

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1/ It should be noted that the distinction between current and capital expenditures may be blurred in many cases by the classification as investment outlays of expenditure categories of a recurrent nature. On the other hand, the level of certain current outlays (in particular those for operations and maintenance) often has direct implications for the productivity of the existing capital stock. Therefore, the focus on fiscal savings in an adjustment program needs to keep in mind that one basic goal of fiscal expenditure restraint is the elimination of inefficient (current or capital) outlays.

2/ On average, public sector savings are programmed to increase by some 3 percent of GDP over the program period, compared with the level attained over the three-year period prior to the program. Also, for the two cases where no targets for public sector savings are specified (The Gambia and Sierra Leone) the programs clearly state that an increase is aimed at.

3/ On average, the projected improvement in private savings is on the order of 1 1/2 percent of GDP. The precise projection of private savings is complex, if not often intractable; among other things, the effects of a reduction in fiscal deficits on private disposable incomes, and in turn private savings, need to be taken into account. Again, the focus should be more on a direction of change rather than on precise forecasts or targets.

a shift in incentives will also, together with a general strengthening of confidence as an adjustment program takes hold, help to create an environment conducive to domestic investment of private savings, versus investment abroad, i.e., capital flight. Moreover, such an environment may add to available resources through increased willingness of foreign savers to invest in the country (direct foreign investment, other capital inflows), a return of flight capital, and/or an increase in remittances (e.g., from workers abroad).

3. Adjustment policies

The present section reviews some of the specific policy measures incorporated in SAF programs.

a. Fiscal policy

The narrowing in the fiscal deficits was to derive in most cases (except Sierra Leone) 1/ from a reduction in the current expenditure/GDP ratio; on average, a reduction by about 3 percentage points (relative to the level recorded during the three years prior to the start of the program) is aimed at. 2/ At the same time, in all but three cases, revenues are projected to absorb a roughly unchanged or falling share of GDP over the program period. In the case of Bolivia, revenues are expected to continue the recovery from the severe erosion they suffered in the period of hyperinflation; in Sierra Leone an increase in revenues from the very low levels recorded previously was deemed necessary in order to finance an adequate level of both current and capital expenditures, with particular emphasis on a recovery of outlays for operation and maintenance. In Bangladesh, an increased revenue effort was deemed necessary in view of the relatively low level of government revenues (around 9 percent of GDP) at the outset of the program.

In those few cases where an increase in revenues was programmed, the principal measures to this end were tax reform (Bangladesh, Bolivia, and Sierra Leone), increased revenues from trade taxes due to tariff reform (Bolivia) or exchange rate depreciation (Sierra Leone), and adequate pricing policies for government services or parastatals (e.g., petroleum prices in Sierra Leone). It is noteworthy that the primary objective of these measures was often not the raising of additional revenues as a share of GDP, but the correction of price or other

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1/ In the case of Bolivia, although a slight increase (by about 1/2 percentage point) in the current expenditure/GDP ratio is projected in relation to the pre-program year, the targeted level at the end of the program would still be significantly below (by about 2 percentage points) the average for the three years prior to the start of the program.

2/ Relative to the pre-program year, the average reduction is by about 2 percentage points.

distortions, i.e., primarily structural concerns. As regards expenditures, in most cases restraint was to apply to virtually all categories of current outlays, with major emphasis, however, on holding the line on civil service employment and wage bill, public enterprise reform in order to limit the need for budgetary transfers, reduction of subsidies, and administrative reform measures to strengthen control over the expenditure process.

In the area of structural reform of the public sector, tax reform featured prominently in all programs under review. Often the tax structure was thought to be inappropriate, not only with a view to public sector financial balance, but also in contributing importantly to distortions in the set of incentives for the taxed. Thus, the basic thrust of such reform was typically aimed at improving the elasticity of the tax system, rationalizing the structure of tax rates (mostly by eliminating unwarranted exemptions and reducing unduly high rates), and improving tax collection and administration. However, in a majority of programs, the authorities were not in a position to define specific steps to be implemented in the near future. In many of these cases, the authorities undertook to pursue the necessary studies and preparatory work.

Among other measures incorporated in virtually all programs was public enterprise reform, in the form of either rehabilitation and rationalization or of divestiture or closure. Most programs provide explicitly for World Bank involvement in the formulation of policies in this area, either in the context of the Bank's policy-based lending operations (e.g., SAL for Sierra Leone), in the form of technical assistance projects (e.g., Mauritania since 1983), or with other specific development projects (e.g., in Bolivia for the state petroleum and mining companies). Again, however, the scope of such reform and the specific steps included in the SAF program for the first year varied widely across program countries, from a fairly detailed and all encompassing calendar of reform (e.g., Senegal) to a statement of intentions with only few and minor immediate concrete actions (e.g., The Gambia).

In order to raise the efficiency of public investment, all programs envisage the implementation of public investment programs that are to be formulated in consultation with the World Bank. In fact, in all but two cases a review of the investment program by the World Bank had been completed before approval by the Executive Board of the SAF

arrangement. 1/ As a result of the rigorous application of selection criteria for new public investment projects, as well as the various measures benefiting efficiency of private sector resource allocation, incremental capital-output ratios in program countries are expected to drop significantly (e.g., in the case of Burundi, the high ICOR of past investments in the public sector is programmed to decline markedly over the program period).

In addition to the above fiscal issues that were of concern in all programs reviewed, in a number of cases (e.g., Dominica and Niger) specific problem areas in public resource management were identified, and were to be addressed through enhanced expenditure control, greater administrative efficiency, civil service reform (e.g. Dominica), a reduction in subsidies, an increase in cost recoveries on public services, and/or a progressive reduction of cross debts in the public sector (e.g. Niger and Senegal).

b. Monetary policy

All programs include as an important objective the containment or reduction of inflation; in all cases where inflation had been (or was at the beginning of the program) significantly above the range of world inflation (five out of ten cases), 2/ the program aimed at a decline in the rate of inflation to, or close to, that range. Consistent with this objective, and with the programs' balance of payments targets, all programs but one (Niger) provided for a reduction in the rate of growth of global credit aggregates relative to the growth rates recorded in the recent past. 3/ At the same time, however, in all cases but one (Senegal) provision was made for an increase in real terms of credit to the private sector. 4/ Correspondingly, in all programs, the domestic financing needs in general and monetary financing in particular of the

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1/ In five of these cases, World Bank review included investment programs covering the entire three-year program period; in two cases, the review was for the first year with provision for further review in subsequent years. In the case of The Gambia, a revision of the existing three-year investment program was to be agreed with the World Bank by end-1986. In the case of Bolivia, the investment program reviewed earlier by the World Bank had become largely outdated, and a substantial revision of the investment program was still underway at the time of Board approval of the SAF program.

2/ Burundi, Bolivia, The Gambia, Senegal, and Sierra Leone.

3/ In the case of Niger, a measured increase from the low rates of credit growth recorded during 1984-86 was deemed feasible and would entirely benefit the private sector, as government recourse to bank financing is programmed to decline substantially.

4/ In the case of Senegal, credit targets take account of a planned reduction in government arrears to the private sector and the program specifically provided for sufficient crop credit by excluding it from the limit set on private credit expansion.

public sector was to be curtailed substantially. Thus, monetary policies typically were designed with a view to allowing for a progressive restructuring of financial flows in the economy, with an enhanced role of private sector activities to be supported by the provision of an increasing share of total available resources.

In pursuit of the objective of strengthening private savings, most programs feature an active interest rate policy, 1/ either in the form of interest rate liberalization 2/ or a more flexible management of administered rates; 3/ in one case (The Gambia), the elimination of preferential rates for specific types of financing was also envisaged. In the two cases where interest rates in the recent past were the most negative in real terms (The Gambia and Sierra Leone), interest rate liberalization was to be accompanied by the introduction of a system of regular treasury bill auctions. In all but one case, such interest rate policies were expected to deliver positive real rates at an early stage of program implementation, 4/ the range of increase in real rates envisaged in programs varies considerably across countries; with initial real rates of about minus 60 percent (Sierra Leone), minus 25 percent (The Gambia), or slightly negative (Burundi and Senegal) and program targets of positive real rates in the range of 2-5 percent. 5/

In addition, programs typically envisage financial sector reform as one important vehicle to strengthen private savers' confidence and enhance the relative attractiveness of financial savings; however, only in a few cases was there a clearly laid out and comprehensive plan of action. In four programs specific measures were planned to rehabilitate state or private banks, including two cases (Bangladesh and Mauritania) where a comprehensive program of financial and legal reform of the banking system was envisaged.

c. Other structural policies

Reflecting the common need to secure appropriate amounts and terms of external financing, a strengthening of external debt management was in all cases thought to be critical to countries' progress toward external viability. Such a strengthening usually had the twin objectives of (i) marshalling external financing on an adequate scale

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1/ In two cases (Niger and Senegal) interest rate policy was to be pursued in the context of the West African Monetary Union (WAMU).

2/ Bolivia, The Gambia, Haiti, and Sierra Leone, which featured maintenance of a liberal system for the determination of interest rates.

3/ Bangladesh, Burundi, and Mauritania.

4/ In the case of Bolivia, liberalization was expected to result in a reduction of the very high real interest rates prevailing at the beginning of the program period.

5/ No quantified targets were formulated in the cases of Sierra Leone and the WAMU members Niger and Senegal. Also, if rates are to be market determined, such targets can only be indicative projections.

and on appropriate terms and timing, and securing, where necessary, rescheduling of debt with banks and official creditors, and (ii) devising forward-looking policies and improving management techniques with a view to achieving a progressive reduction in recourse to foreign savings in general and nonconcessional sources of financing in particular, as well as ensuring the orderly recording and servicing of foreign debt.

In reflection of the fact that the agricultural sector was identified as a major source of future growth for all countries, programs typically included specific measures to improve agricultural infrastructure (e.g., feeder roads, irrigation systems), remove bottlenecks that have impeded agricultural growth in the past (e.g., availability of seeds and other inputs), and improve incentives to fully exploit production possibilities (e.g., producer prices).

In addition to the above areas of reform, most of which were common to virtually all programs, in some cases a few major problem areas were identified as the most critical structural impediments to growth and external adjustment. For example, in the case of Burundi, emphasis was placed on tackling the pervasive distortions arising from the exchange and trade system. Thus, a substantial correction of exchange rate policy, liberalization of import and exchange controls, and reduction of tariff protection, are core elements of the program.

Among other sector policies, industrial policy measures were included in a majority of cases, with primary focus on improving the environment for investment in general and tradeables activities in particular. The objective of efficient resource use by the private sector was pursued also by measures to improve institutional and regulatory arrangements. Examples for direct institutional or regulatory barriers to growth that are to be removed in the early stage of adjustment programs are labor code regulations that act as disincentives to new employment (Senegal), inefficient agricultural credit systems (The Gambia and Haiti), or inadequate marketing arrangements that hinder efficient use of existing production capacity (Sierra Leone).

In sum, it appears that in most cases programs identify the areas where structural reform is most urgent, and specific paths of implementation are defined in the areas of public investment, interest rate policies, and, where applicable, the exchange and trade system. However, there were cases as well where concrete steps to be taken during the first program year were not identified, in particular in the areas of financial sector, tax, and public enterprise reform, and sector policies other than agricultural policies. Finally, there were cases where the programs included a wide range of structural issues without giving explicit priority to any specific areas. Table II in this Annex summarizes the main structural measures included in the three-year programs under review.

Table I. Macroframework of Three-Year SAF Programs

(In percent)

	Pre-SAF Program Three-Year Average	Pre-SAF Program Year	SAF Program First year	SAF Program Second year	SAF Program Third year	Post-SAF Program Year (if Available)
1. Growth (real GDP)						
Bangladesh	4.1	3.9	4.7	5.2	5.1	5.0
Burundi	3.0	7.7	4.0	4.0	4.0	4.0
Bolivia	-3.4	-2.9	3.2	3.4	4.2	4.0
Dominica	3.1	1.1	4.0	3.5	3.5	3.5
Gambia, The	-3.4	6.6	3.3	3.3	3.3	...
Haiti	--	-1.4	4.5	5.0	4.5	...
Mauritania	2.6	5.2	4.3	4.3	5.2	...
Niger	-2.0	3.0	2.0	2.1	2.2	2.3
Senegal 1/	2.3	4.2	4.0	3.5	3.5	3.5
Sierra Leone	2.4	-1.4	2.0	3.5	3.5	...
2. Inflation (consumer prices unless otherwise indicated)						
Bangladesh	10.2	9.8	8.9	7.5	7.0	7.0
Burundi	8.8	3.7	10.0	9.0	8.0	7.0
Bolivia	102.5	275.0	13.9	7.0	5.0	...
Dominica	2.3	2.5	3.0	3.0	3.0	...
Gambia, The	26.7	41.8	15.0	...	10.0	...
Haiti	8.3	8.5	4.0	4.0	4.0	...
Mauritania	8.5	7.0	6.0	5.0	5.0	...
Niger 2/	7.4	6.0	6.0	6.0	6.0	6.0
Senegal 1/	12.1	9.4	7.0	6.0	5.0	...
Sierra Leone	70.3	70.4	90.0	30.0	10.0	...
3. Current account BOP/GDP 3/ (deficit -)						
Bangladesh	-7.3	-6.9	-6.7	-6.6	-6.9	-7.1
Burundi	-15.6	-14.1	-10.6	-13.9	-14.0	-13.7
Bolivia	-6.7	-8.6	-9.4	-8.6	-7.9	-7.1
Dominica	-21.6	-22.4	-18.2	-16.9	-15.0	-11.8
Gambia, The	-21.0	-21.4	-30.1	-24.4	-20.8	...
Haiti	-6.4	-4.8	-6.8	-7.2	-7.0	-6.6
Mauritania	-26.8	-19.6	-16.5	-14.4	-9.3	-8.0
Niger	-10.3	-7.9	-7.6	-7.5	-6.9	-6.3
Senegal 1/	-17.8	-14.4	-10.7	-8.7	-7.5	-7.1
Sierra Leone	-3.8	-3.0	-1.8	-1.3	-0.5	-1.1
4. Fiscal deficit/GDP (deficit -)						
Bangladesh	-8.0	-7.3	-7.2	-7.3	-6.9	-6.7
Burundi	-13.0	-8.4	-4.1	-6.4	-6.6	-6.9
Bolivia	-14.8	-3.8	-6.1	-5.5	-5.5	...
Dominica	-17.0	-15.2	-12.3	-9.6	-10.3	...
Gambia, The	-13.8	-9.3	-17.5	...	-9.0	...
Haiti	-7.7	-5.1	-6.8	-7.2	-6.8	...
Mauritania	-17.4	-10.8	-8.3	-5.7	-4.2	...
Niger	-8.2	-7.8	-7.8	-7.5	-6.8	-6.4
Senegal 1/	-4.9	-3.3	-3.1	-0.9	0.6	1.7
Sierra Leone	-11.0	-14.5	-11.1	-8.0	-5.0	...

Table I (Concluded). Macroframework of Three-Year SAF Programs

(In percent)

	Pre-SAF Program Three-Year Average	Pre-SAF Program Year	SAF Program First year	SAF Program Second year	SAF Program Third year	Post-SAF Program Year (if Available)
5. Investment/GDP						
Bangladesh	12.9	13.1	12.9	13.6	14.3	14.8
Burundi	18.9	15.5	15.7	19.2	19.8	20.0
Bolivia	6.7	9.5	12.4	14.3	15.6	...
Dominica	...	...	...	...	...	...
Gambia, The	18.8	17.5	...	...	...	...
Haiti	14.2	12.1	14.6	16.3	17.0	...
Mauritania	23.5	21.5	20.7	22.6	19.9	...
Niger	7.5	10.3	10.5	11.0	11.2	11.4
Senegal 1/	15.1	14.0	14.0	14.0	14.0	...
Sierra Leone	7.9	7.1	15.2	...	...	...
6. Domestic savings/GDP						
Bangladesh	2.5	3.2	3.5	4.3	4.9	5.3
Burundi	5.3	3.5	7.2	7.1	7.4	7.6
Bolivia	--	0.9	3.0	5.7	7.7	...
Dominica	...	...	...	...	...	...
Gambia, The	-2.4	-9.7	...	...	...	...
Haiti	3.0	2.7	3.4	4.5	5.6	...
Mauritania	6.5	12.5	14.1	16.7	18.1	...
Niger	2.6	7.3	7.4	7.4	7.8	8.3
Senegal 1/	2.2	6.3	8.0	9.5	10.5	...
Sierra Leone	6.9	6.9	8.8	...	...	...
7. External debt (end of period)/GDP						
Bangladesh	40.5	44.3	42.6	42.8	41.5	40.2
Burundi	36.0	37.0	50.0	55.0	57.0	58.0
Bolivia	90.0	100.0	102.0	102.0	101.0	100.0
Dominica	51.0	52.0	56.0	57.0	58.0	56.0
Gambia, The	176.0	192.0	251.0	...	...	...
Haiti	34.0	33.0	31.0	31.0	31.0	30.0
Mauritania	196.0	205.0	198.0	187.0	171.0	159.0
Niger	63.0	59.0	55.0	52.0	49.0	47.0
Senegal 1/	85.0	80.0	70.0	65.0	60.0	56.0
Sierra Leone	...	252.0	239.0	232.0	225.0	212.0
8. Debt service ratio						
Bangladesh	22.9	28.1	30.4	21.5	20.9	21.9
Burundi	17.8	19.8	16.3	19.6	19.3	...
Bolivia	...	108.0	107.0	90.0	78.0	86.0
Dominica	9.6	9.2	9.5	10.5	9.8	7.8
Gambia, The	...	58.8	57.2	51.7	49.6	47.8
Haiti	13.2	15.3	17.6	13.0	9.9	8.1
Mauritania	37.3	43.4	37.4	38.2	33.8	30.1
Niger	46.8	48.2	50.8	47.7	41.3	37.7
Senegal 1/	25.6	30.3	28.1	28.3	28.1	27.7
Sierra Leone	63.1	81.9	95.0	65.4	54.9	53.6
9. Gross official reserves (in month of imports)						
Bangladesh	2.3	2.4	2.9	2.9	2.7	2.5
Burundi	1.2	1.3	3.9	4.7	4.8	4.7
Bolivia	7.7	10.3	9.2	8.3	7.3	5.8
Dominica	1.4	1.3	1.6	1.7	1.9	...
Gambia, The	0.5	0.2	1.1	2.0	2.8	3.7
Haiti	0.8	0.9	0.9	0.9	1.1	1.2
Mauritania	1.5	1.6	2.0	2.3	2.1	...
Niger	4.3	6.1	...	...	...	...
Senegal 1/	0.1	0.1	...	...	...	...
Sierra Leone	0.6	0.7	1.2	1.5	3.0	2.9

Sources: Fund staff reports and staff calculations.

1/ Latest (revised) figures.
2/ GDP defactor.
3/ Before grants.

Table II. Structural Measures in Three-Year Program

Type of Measures	Bangladesh	Burundi	Bolivia	Dominica	The Gambia	Haiti	Mauritania	Niger	Senegal	Sierra Leone
External sector										
Exchange rate system	x	x			x					
Import liberalization	x	x				x			x	
Tariff reform	x	x	x		x		x		x	x
Debt management		x	x	x	x	x	x	x	x	x
Other			x	x						
Domestic prices										
Retail price decontrol		x	x		x		x	x	x	
Agricultural producer prices					x		x	x	x	x
Fiscal sector										
Tax structure	x	x	x	x	x	x	x	x	x	x
Expenditure control	x	x	x	x	x	x	x	x	x	x
Public sector investment program/priorities	x	x	x	x	x	x	x	x	x	x
Other		x	x	x	x		x	x	x	x
Public enterprises										
Rationalize price structure	x			x	x		x	x	x	x
Closure/divestiture/ rehabilitation	x	x	x	x	x	x	x	x	x	x
Other							x	x	x	x
Financial sector										
Interest rate levels/structure	x	x	x		x	x	x	x 1/	x 1/	x
Rehabilitation of state or private banks	x		x				x		x	x
Instruments of monetary control	x		x		x	x				x
Other			x				x	x		x
Other sector policies										
Agricultural policy	x		x	x	x	x	x	x	x	x
Industrial policy	x		x	x	x		x		x	x
Energy	x		x						x	x
Transport			x	x						
Other			x		x		x			x

Source: Fund staff reports.

1/ Interest rate policy to be pursued in the context of the West African Monetary Union (WAMU).

Table I. Status of SAFs/PFPs

(As of February 9, 1987)

SAF Programs	Quota	Other Fund Program: SBA already approved at time of SAF negotiation	Other Fund Program: SBA negotiated along with SAF	Other Fund Program: SAF only
	(In millions of SDRs)			
A. Approved by Board (10)				
Bangladesh	287.5	x		
Burundi	42.7		x	
Bolivia	90.7	x		
Dominica	4.0			x
Gambia	17.1		x	
Haiti	44.1			x
Mauritania	33.9	x		
Niger	33.7	x	x	
Senegal	85.1		x	
Sierra Leone	57.9		x	
Sub-total	696.7			
Percent of total 1/	16.6			
B. Issue to Board (PFP only) (2)				
C.A.R.	30.4	x	x	
Zambia (for info. only)	270.3	x		
Subtotal	300.7			
Percent of total 1/	7.2			
C. Negotiations commenced (12)				
Chad	30.6			x
Equatorial Guinea	18.4		x	
Ghana	204.5	x		
Madagascar	66.4	x		
Malawi	37.2		x	
Mali	50.8	x		
Nepal	37.3	x		
Pakistan	546.3			x
Somalia	44.2		x	
Sri Lanka	223.1			x
Togo	38.4	x		
Zaire	291.0	x		
Subtotal	1,588.2			
Percent of total 1/	37.9			

Table I (Concluded). Status of SAFs/PFPs

SAF Programs	Quota	Other Fund Program: SBA already approved at time of SAF negotiation	Other Fund Program: SBA negotiated along with SAF	Other Fund Program: SAF only
	(In millions of SDRs)			
D. Negotiations expected to commence in first quarter of 1987 (9)				
Ethiopia	70.6		x	
Guinea	57.9	x		
Guinea Bissau	7.5			x
Kenya	142.0			x
Lesotho	15.1			x
Mozambique	61.0			x
Tanzania	107.0	x		
Uganda	99.6			x
Yemen Arab Republic	43.3			x
Subtotal	604.0			
Percent of total 1/	14.4			
E. Preliminary discussions were undertaken in 1986, or expected in first quarter of 1987 (18)				
Afghanistan	86.7			
Benin	31.3			
Bhutan	2.5			
Burkina Faso	31.6			
Cape Verde	4.5			
Comoros	4.5			
Djibouti	8.0			
Grenada	6.0			
Guyana	49.2			
Lao, P.D.R.	29.3			
Maldives	2.0			
Rwanda	43.8			
St. Lucia	7.5			
Sao Tome & Principe	4.0			
Solomon Islands	5.0			
Viet Nam	176.8			
Western Samoa	6.0			
Yemen, P.D.R.	77.2			
Subtotal	575.9			
Percent of total 1/	13.8			

1/ As percent of quotas of all SAF-eligible countries (excluding China and India) (i.e., SDR 4,186.0 million).

Table II. Participation of Fund-Bank Staff in Selected Missions to Negotiate PFPs

	Fund Staff Members	Bank Staff Members	Timing of Mission 1/
I. PFPs reviewed by the Board 2/			
Bangladesh	Parallel Mission		Nov./Dec.
Bolivia	Parallel Mission 3/		October
Burundi	3	2	June
Dominica	Parallel Mission 3/		May/June, August
The Gambia	4	1	May/June, July
Haiti	5	1	August
Mauritania	4	1	June
Niger	4	1	Aug./Sept.
Senegal	Parallel Mission 3/		June/July/Aug.
Sierra Leone	4	1	July/Sept.
II. Other Selected Missions to Negotiate PFPs			
Equatorial Guinea	4	2	June
Malawi	Parallel Mission 3/		June
Mali	5	1	July, December
Pakistan	4	1	June
Sri Lanka	4	1	September
Togo	Parallel Mission 3/		December
Yemen Arab Rep.	5	1	February 1987
Zambia	4	1	April/May, June, August

1/ Refers to month in 1986 unless indicated otherwise.
2/ As of February 9, 1987.
3/ A parallel mission of the World Bank took place at the same time and staff members from that mission participated in the negotiations of the PFP.

Table III. Staff Time Devoted to the Structural Adjustment Facility 1/

(In staff years)

	A9-B-5	A1-A8	Total
CY 1986 (9 months)			
Area Departments	16.2	3.5	19.7
Headquarters	(13.2)	(2.7)	(15.9)
Mission	(3.0)	(0.8)	(3.8)
Functional Departments	6.5	1.5	8.0
Headquarters	(5.7)	(1.5)	(7.2)
Mission	(0.8)	(--)	(0.8)
Other Departments	1.7	0.7	2.4
Headquarters	(1.6)	(0.7)	(2.3)
Mission	(0.1)	(--)	(0.1)
Total	24.4	5.7	30.1

Source: Administration Department.

1/ Excludes overhead allocation for paid leave time.

Table IV. Staff Time Devoted to SAF-Related Activities on Missions in CY 1986, March-December 1986

Area Department	Mission Purpose	Percentage of Time on SAF Activities
African Department		
Burkina Faso	UFR and possible SAF	30
Burundi	Use of SAF resources	100
C.A.R.	Art. IV, Stand-by review, SAF	30
Chad	PFP Discussions	100
Equatorial Guinea	UFR, incl. SAF	50
	SAF negotiations	100
Ethopia	PFP preliminary discussions	100
Gambia, The	Art. IV and possible use of SAF	30
	Completion of UFR	30
Guinea	Stand-By Review and possible SAF	30
Guinea-Bissau	Art. IV and use of SAF	30
Kenya	Art. IV and use of SAF	15
Lesotho	Art. IV and possible SAF	12.5
Malawi	Art. IV, Stand-by neg., and SAF	30
	Continuation of Stand-by Neg.	50
Mali	Stand-By Review and possible SAF	30
Mauritania	Art. IV and Stand-By Review	50
Mozambique	Art. IV and UFR	60
	Quantify elements of SAF program	60
	SAF negotiations	60
Niger	Art. IV and Stand-By Review	30
	UFR and possible SAF	30
Senegal	Staff visit to prepare 86/87 fiscal program	30
	UFR incl. SAF	30
Sierra Leone	Art. IV and possible UFR incl. SAF	30
Somalia	Art. IV and UFR, incl. SAF	10
	Stand-By Arr. and SAF Negotiation	33
Togo	UFR	30
Uganda	Art. IV, Stand-By Review and possible SAF	35
Zaire	Conclude Stand-By Review	15
Zambia	UFR follow-up	15
	Continuation of Stand-by Review	15
Asian Department		
Bangladesh	Art. IV, Stand-By Review and SAF	50
Maldives	Art. IV consultations	5
Nepal	Art. IV, Stand-By Review and SAF	25
Sri Lanka	SAF	100
Western Samoa	Art. IV and SAF	5

Table IV (Concluded). Staff Time Devoted to SAF-Related Activities on Missions in CY 1986, March-December 1986

Area Department	Mission Purpose	Percentage of Time on SAF Activities
Middle Eastern Department		
Afghanistan	Art. IV	15
Pakistan	UFR, SAF	100
Yemen Arab Republic	Art. IV and SAF	30
Yemen, PDR	Art. IV and SAF	30
Western Hemisphere Dept.		
Bolivia	Art. IV and Stand-By Review	50
	Staff visit	100
Dominica	Art. IV and UFR (SAF-related)	80
	SAF	100
Grenada	Staff visit	20
Haiti	Use of Fund resources	67
	Art. IV and UFR	33
	SAF	100

Table V. Benchmarks in Annual SAF Programs

A. Financial (Quantitative) Benchmarks 1/

	Credit/Monetary		Fiscal Policy		External Borrowing			Exchange Rate Policy			
	Net Domestic Credit/Assets of Banking System/ Central Bank	Net Credit to Government	Fiscal Deficit	Domestic Payments Arrears	Short-Term (0 - 1)	Medium-Term (1 - 5)	Long-Term (1 - 10/12/15)	Net Foreign Assets	Exchange Rate Indicators	Other	Total
Bangladesh	1	1	1	--	2	1	1	--	--	2	9
Burundi	1	1	1	1	1	--	1	1	--	--	7
Bolivia	1	1	1	--	--	--	1	1	1	1	7
Dominica*	--	1	--	1	--	--	--	--	--	3	5
The Gambia	1	1	--	--	--	--	1	--	--	2	5
Haiti*	1	--	2	--	1	--	2	--	--	2	8
Mauritania	1	1	1	--	--	--	1 2/	--	--	1	5
Niger	1	1	--	1	1	--	1	--	--	1	6
Senegal	1	1	--	1	1	1	1	--	--	3	9
Sierra Leone	1	1	--	--	1	1	1	--	--	1	6

B. Structural Policy Benchmarks

	Exchange Controls	Trade Liberalization Including Tariff Reform	Public Enterprise Reform	Tax Reform	Civil Service Reform Including Remuneration	Agricultural Policies	Public Investment Program	Financial Sector Reform	Other	Total
Bangladesh	1	--	--	2	--	--	2	7	--	12
Burundi	1	3	2	--	--	--	--	--	--	6
Bolivia	--	--	1	1	--	--	1	1	--	4
Dominica*	--	--	4	--	3			--	1	8
The Gambia	--	--	1	1	1	--	1	--	2	6
Haiti*	--	3	1	--	--	3	1	--	1	9
Mauritania	--	--	2	--	--	1	--	4	2	9
Niger	--	--	1	1	1	3	--	--	2	8
Senegal	--	1	--	--	--	2	1	--	--	4
Sierra Leone	--	--	2	1	--	1	--	--	4	8

Source: Fund staff reports.

*SAF only.

1/ The quantitative benchmarks were on a quarterly basis in all cases except Dominica where they were on a half-yearly basis, the fiscal deficit in Burundi which was to be measured in half-year intervals for the preceding full year, the treasury surplus in Mauritania (annual benchmark).

2/ Covers 0 to 15 years.

Table VI. SAF Program and Arrangement Periods

	Commencement Of:			Remaining
	Fiscal Year (1)	Annual SAF Program (2)	Annual SAF Arrangement (3)	Program Period 1/ (In months) (4)
Bangladesh	7/1/86	7/1/86	2/6/87	4.8
Burundi	1/1/86	7/1/86	8/8/86	10.8
Bolivia	1/1/87	1/1/87	12/15/86	12.5
Dominica	7/1/86	7/1/86	11/26/86	7.1
Gambia	7/1/86	7/1/86	9/17/86	9.5
Haiti	10/1/86	10/1/86	12/17/86	9.5
Mauritania	1/1/86	7/1/86	9/22/86	9.3
Niger	10/1/86	10/1/86	11/17/86	10.5
Senegal	7/1/86	7/1/86	11/10/86	7.7
Sierra Leone	7/1/86	7/1/86	11/4/86	7.5

Source: Fund staff papers.

1/ Calculated as the period between the Board approval of the program and the end of the annual SAF program.

Table VII. The World Bank's Ongoing Policy-Based Lending to Countries With SAF Arrangements

	Bank Board Review of PFP	Structural Adjustment Loan/Credit		Sector Adjustment Loan/Credit	
		Bank Board Approval	Under Discussion	Bank Board Approval	Under Discussion
Bangladesh	1/87			2/86	*
Burundi	7/86	5/86			
Bolivia	11/86				*
Dominica	11/86		*		
Gambia	8/86	8/86		11/84 5/85	*
Haiti	11/86				* 1/
Mauritania	9/86		*	3/85 12/85	
Niger	10/86	1/86			
Senegal	10/86	2/86			
Sierra Leone	11/86			6/84	

1/ An economic recovery credit for Haiti is scheduled for Bank Board discussion for late March 1987.